NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE-SECTOR PARTICIPATION

(112–115)

HEARING

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ONE HUNDRED TWELFTH CONGRESS

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[†] Hon. Carolyn B. Maloney did not submit a written statement.

U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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December 7, 2012

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SUMMARY OF SUBJECT MATTER

To: **Members of the Committee on Transportation and Infrastructure**

From: **Majority Staff on the Subcommittee on Railroads, Pipelines, and Hazardous Materials**

Subject: **Hearing on "Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation"**

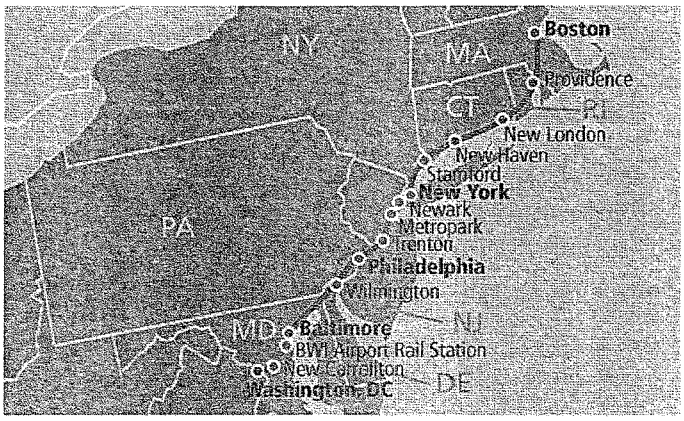
PURPOSE

On Thursday, December 13, 2012, at 10:00 a.m. in 2167 Rayburn House Office Building, the Committee on Transportation and Infrastructure will receive testimony regarding the future of the Northeast Corridor (NEC) and the options for private sector participation. Throughout the 112th Congress, the Committee and the Subcommittee on Railroads, Pipelines, and Hazardous Materials has held several hearings on private sector involvement in passenger rail, high-speed rail in the NEC, and how best to utilize this valuable asset. This hearing will bring stakeholders together to examine the developments regarding high-speed rail in the NEC during this Congress and the options for private sector participation going forward.

HISTORY

The Northeast Corridor

The NEC is one of the most valuable transportation assets in the United States, providing a continuous link between the major population centers of Washington, D.C., Baltimore, Philadelphia, New York City, and Boston. Without question, the NEC represents the best opportunity for true high-speed rail in the United States. The region itself has all the requirements for a successful high-speed rail system, due to its regional population, regional economy, interconnectivity, and congestion concerns. In general, the highest demand for high speed rail occurs in city pairs that are located 100 – 500 miles apart with large populations and economies, along with the presence of regional and local transit networks to provide connectivity for intercity passengers.



The NEC region is home to four of the ten most populous metro regions in the nation – New York, Philadelphia, Washington, D.C., and Boston – and 18 percent of the nation's population living in just 2 percent of its land area. Taken as a whole, the NEC region would be the sixth largest economy in the world with a GDP of $2.59 trillion, and a population equal to the United Kingdom. Furthermore, congestion at airports and on highways is becoming a severe problem in the region. The I-95 Corridor Coalition estimates that over 60% of the urban road miles of Interstate 95 are heavily congested. Additionally, the airspace above New York is the most complex and congested in the nation with approximately 75% of the nation's chronically delayed flights flying through the New York airspace bottleneck.

The NEC is host to intercity passenger rail, commuter rail, and freight rail operations. Of the 437 total miles of the NEC, Amtrak owns and controls 363 miles, with states controlling portions of the route north of New York City. Over the last three decades, Amtrak and the FRA have managed two major NEC capital improvement projects at a total cost to taxpayers of nearly $6 billion. However, despite these improvements, the NEC still falls far short of international high-speed standards. The Acela, Amtrak's high speed service, averages only 83 miles per hour between D.C. and New York and only 72 miles per hour between New York and Boston. Internationally, high-speed trains can average 150 mph and many nations are upgrading systems to achieve top speeds of 220 mph. All the factors that point to a successful high-speed rail system, be it regional population, regional economy, interconnectivity, or congestion concerns, exist on the NEC.

NEC Infrastructure and Operations Advisory Commission

Recognizing the value of the NEC, section 212 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) created the NEC Infrastructure and Operations Advisory Commission (Advisory Commission) to create and implement a long-term, regional investment strategy for the NEC; advance near-term improvement projects; coordinate regional planning and

communication; and educate stakeholders and public about the NEC's investment needs and role in economic growth and development. The Advisory Commission is made up of members from each of the NEC States (including the District of Columbia), Amtrak, and the U.S. Department of Transportation (DOT), along with non-voting members from the freight railroads that use the NEC. While the Advisory Commission was just getting organized and set up at the beginning of this Congress, it is now fully established and advancing its mission, as discussed further below, with its first annual set of recommendations expected in January 2013.

RECENT DEVELOPMENTS

NEC FUTURE

Recognizing the need for a corridor-wide planning and environmental document, FRA was appropriated $10 million in fiscal year 2010 for the project. In February 2012, the FRA began the comprehensive planning effort to define, evaluate, and prioritize future investments for the NEC through 2040 that it dubbed the NEC FUTURE. The NEC FUTURE project includes two parts: (1) a Tier I environmental impact statement (EIS), which is a corridor-wide environmental analysis necessary for most future federal investment; and (2) a service development plan, which is a detailed plan for rail service of all types on the corridor. The NEC FUTURE process is expected to take a total of three years, assuming continued appropriations, and is divided into three phases, as set forth below:

NEC FUTURE PHASES

Phase	Timeframe	Goal
Phase I	1 year: Feb. 2012 – Feb. 2013	Develop Purpose & Need; Scoping Process; Begin Alternatives Development
Phase II	18 mos.: Feb. 2013 – Aug. 2014	Complete Alternatives Development; Complete Draft EIS; Complete Draft Service Development Plan
Phase III	8 mos.: Aug. 2014 – May 2015	Final EIS; Final Service Development Plan
Complete	Before end of 2015	Record of Decision

Specifically, the Tier I EIS will assess the broad corridor-wide impacts of proposed improvements and service levels pursuant to the National Environmental Policy Act (NEPA), and will document the planning process and describe the proposed improvements, potential impacts, and proposed mitigation strategies. More detailed Tier II environmental reviews (i.e., categorical exclusion, environmental assessment, or EIS) would then be needed to examine the potential impacts of the site-specific projects identified in the Tier I EIS. Specific projects cannot move forward or be federally funded without first undergoing the appropriate environmental review. The tiered process of environmental review is intended to speed-up the overall NEPA process.

While the NEC FUTURE is ongoing, there are still NEC-related projects that are being undertaken (see chart in Appendix). The projects total over $1.8 billion in various Federal funds, and over $2 billion in total funding. These projects are intended to, among other things, bring the NEC into a state-of-good-repair, upgrade track and structures, and allow for capacity improvements.

Advisory Commission Actions

Over the last two years, the Advisory Commission has undertaken a number of efforts to advance its mission. First, pursuant to Section 212(c) of PRIIA, then Advisory Commission is developing its cost allocation formula for use of the NEC by intercity passenger rail, commuter rail, and freight rail. The formula is intended to ensure there is no cross-subsidization among the users. Second, the Advisory Commission is developing its first annual recommendations, pursuant to section 212(d) of PRIIA, for submission to Congress in early 2013. The recommendations will consist primarily of a report on the critical infrastructure needs of the NEC; essentially, a list of projects that jointly benefit all users of the NEC.

Finally, the Advisory Commission is in the process of developing several other reports that will help to inform its future recommendations and the ongoing NEC FUTURE project. One is a report on the state of the NEC transportation systems that will establish the baseline usage of the NEC region's highway, aviation, and rail networks, while also looking at the challenges the networks will face in the future. The study area of the report is intended to parallel that used in the NEC FUTURE and help to inform that project. Similarly, the Advisory Commission is also planning a highway intercept survey that will help to identify highway usage between various origins and destinations to also help inform NEC FUTURE.

As to rail usage, the Advisory Commission is in the process of developing a NEC operations and performance report that will help identify exactly where usage by commuter, passenger, and freight rail exists, how performance is measured by each entity (i.e., on-time performance), and what causes delays. All of this information will help inform where best to make infrastructure investments. In addition to transportation usage, the Advisory Commission is beginning an economic development report that will identify the value of the NEC to the economy of the region and the prospects for enhancing future economic development. Each these reports are expected to be completed at differing times next year.

Amtrak's Vision for the NEC

In September 2010, Amtrak released its "Vision for High-Speed Rail in the Northeast Corridor" with an estimated cost of $117 billion and timeline of 30 years. This proposal laid out a true high-speed rail alternative for the Northeast Corridor utilizing a dedicated right-of-way for 220-mph service, with 96 minute trip time from Washington, DC to New York, and 93 minute trip time from New York to Boston. On July 9, 2012, Amtrak updated that plan, releasing "The Amtrak Vision for the Northeast Corridor: 2012 Update Report" (2012 Vision) with a revised cost of $151 billion over 30 years. While the cost is higher than the 2010 Vision, the 2012 Vision includes updates to the 2010 Vision ($117B) and the Master Plan for the NEC ($52B), along with the introduction of the Gateway Program for new tunnels and station improvement ($14.7B). Those three items together would have cost $183.7 billion, so Amtrak's updated costs did lower the overall cost. Amtrak notes that 50-80% of the total cost ($72--$120 billion) may need to come from the government.

As to timeframe, the 2012 Vision envisions high-speed rail by 2040 and implements a "Stair-Step" approach dividing the process into two parts. First, the NEC Upgrade Program

(NEC UP), which is planned from 2015-2025, will allow for maximum speeds of 160 mph and achieve a state-of-good-repair and capacity upgrades. The 2012 Vision next includes the Next-Generation High Speed Rail Program (NextGen HSR) from 2025-2040 to build new and to upgrade existing alignment for two-track HSR to accommodate speeds of 220 mph. Amtrak's Vision is separate from the NEC FUTURE, and may be one of several alternatives evaluated in through NEC FUTURE process.

Private Sector Involvement

The private sector can become involved in the NEC's development in a number of ways, be it through station development, operations, or public-private partnerships. Each of the involved entities listed above understands the economic value of developing high-speed rail in general and on the NEC. The value of this development should be captured to help provide revenue to the corridor. As noted above, the Advisory Commission is undertaking an economic development report that will identify prospects for further enhancement of economic development along the NEC. While the scoping of the NEC FUTURE project is not yet completed, the FRA has issued station planning guidance that specifically notes planners should "[c]onsider value capture opportunities such as business improvement districts that could provide revenue to the rail agency."[1] Amtrak, in 2011, also announced its plans to aggressively pursue private sector investment to support its plans on the NEC. Indeed, its 2012 Vision explained that early private sector involvement can help reduce potential risks in delivering the program in the near term through a design-build structure, but noted that private sector funding may not be available until the first high-speed rail segment is completed in 2030.

In today's current fiscal climate, the Federal government cannot continue to support the full financial burden of major infrastructure projects. Treasury estimates note that the investment community has hundreds of billions in available uncommitted capital. Private sector capital has been leveraged around the world to develop high-speed rail and has the opportunity to do so in the NEC. In general, successful public-private partnerships share financing between the public and private partners. The private sector is incentivized to participate in financing a project when risk is minimized and there is a consistent federal or state partner. Private sector financing could then allow high-speed rail projects to be developed and constructed with less reliance on public funds, which can speed up the process and result in lower-cost projects. In these arrangements, the public partner retains some control and management of the overall rail program to ensure that public requirements and governments standards are met. The Committee will explore these arrangements, along with other opportunities for private sector involvement.

[1] FRA, "Station Area Planning for High-Speed and Intercity Passenger Rail", p. 12.

INVITED WITNESSES

The Honorable Karen J. Hedlund
Deputy Administrator
Federal Railroad Administration

The Honorable Joseph Boardman
President and CEO
Amtrak

The Honorable Joan McDonald
Chair, Northeast Corridor Infrastructure and Operations Advisory Commission
Commissioner, New York State Department of Transportation

Dr. Richard Geddes
Adjunct Scholar
American Enterprise Institute

Mr. Perry Offutt
Managing Director
Morgan Stanley

Dennis Pierce
President
Brotherhood of Locomotive Engineers and Trainmen and Teamsters Rail Conference

Appendix

Northeast Corridor Projects*, FY09-Present ($M)				
Project Name	**Program**	**Federal**	**Non-Federal**	**Total**
Corridor-wide Investments				
Northeast Corridor FUTURE	n/a	$10	NA	$10
Electric Locomotive Purchase and Maintenance Upgrades	RRIF	$563	NA	$563
Targeted Investments				
Boston South Station Expansion Project (PE/NEPA)	HSIPR	$33	$11	$43
Providence Improvements (PE/NEPA)	HSIPR	$3	$1	$4
Kingston Track Capacity and Platform Improvements	HSIPR	$26	NA	$26
Stamford Intermodal Access	TIGER	$11	$28	$39
Harold Interlocking	HSIPR	$295	$74	$368
New York Moynihan Station Phase I	Multiple	$274	$50	$323
Newark, NJ Portal Bridge	HSIPR	$39	$17	$55
Trenton-New Brunswick Signal, Track, Catenary Improvements	HSIPR	$450	NA	$450
Delaware Third Track	HSIPR	$13	$3	$17
Newark Regional Transportation Center	TIGER	$10	$16	$26
Newark Train Station Improvement Plan	TIGER	$2	$1	$3
Susquehanna River Bridge Replacement (PE/NEPA)	HSIPR	$22	NA	$22
Baltimore and Potomac Tunnels (PE/NEPA)	HSIPR	$60	NA	$60
BWI Airport Station (PE/NEPA)	HSIPR	$9	NA	$9
Washington Union Station Escalators	HSIPR	$4	$4	$9
TOTAL		**$1,823**	**$204**	**$2,027**

*Does not include projects funded through Amtrak's annual capital or Recovery Act grants

NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE-SECTOR PARTICIPATION

THURSDAY, DECEMBER 13, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
WASHINGTON, DC.

The committee met, pursuant to call, at 10:05 a.m., in Room 2167, Rayburn House Office Building, Hon. John L. Mica (Chairman of the committee) presiding.

Mr. MICA. Good morning. Welcome to this hearing of the House Transportation and Infrastructure Committee. And I welcome everyone this morning. Pleased you could join us.

The title of today's hearing is the "Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private-Sector Participation."

The order of business will be opening statements by Members. And we have another Member who has joined us. We will have an individual panel made up of Mrs. Maloney. Then we will go to our next panel of witnesses and question them and proceed with the hearing in that order.

Let me make just a couple of custodial announcements. I apologize, the other day we tried to get the official committee room photo of the committee, and notice went askew, but we will reschedule that. And if votes are cancelled on Monday, which I don't know if they have made that announcement, but if they do, we will probably shift the official photo to Wednesday morning—folks may not come back until Tuesday—and probably about 10:15 because there is a Republican conference and Democrat caucus, usually, from 9:00 to 10:00 here and, we want to make certain everyone is notified.

In addition, I would like, to the Members in the official photo, if we could have staff from both sides of the aisle, too, join us for one of the photos so that we can include them in one of the photographs that morning. It shouldn't take more than 5 or 10 minutes to get that done, but we would like to invite everyone and put everyone on notice. And we will try to get triple notification out to everyone for that.

This morning's hearing is a continuation and will be, actually, the last full hearing of the committee. I am pleased to have chaired the committee during the past 20-some months and focus on our transportation needs and requirements. The very first hearing that

I held as chairman was, I believe, January 27th, 2011. It was a field hearing in Grand Central Station, and it focused on the same issue, the development of the Northeast Corridor and high-speed rail.

This hearing is also a part of a series of hearings to examine some of the operations of our primary transportation long-distance and high-speed carrier, which is Amtrak. And as you know, I have been one of the most vocal critics of Amtrak and its operations, but I also consider myself one of the strongest proponents of high-speed rail, intercity passenger service, commuter and mass transit in the Congress and in the United States. But what we want are projects that make sense for the taxpayers. What we want are projects that operate where we have the greatest need and the lowest subsidization by the Federal Government for those activities.

But today we will focus almost entirely on the Northeast Corridor, where we started. And let me make a few comments about that.

First, I have to say that the history of Amtrak and attempting to provide high-speed rail in the Northeast Corridor has been sort of a horrible history. And maybe I can highlight some of the problems we have had. And I don't want to focus just on the problems we have had, but you have to learn by your experience.

First, the original intent to develop high-speed rail in the corridor, we came up with the Acela project. We have had regional service in the Northeast Corridor in the area from Washington, DC, to New York and to Boston.

And let me say, I think it is absolutely critical that we develop that corridor. It is in not only the regional interest but in the national interest. We have the highest concentration of population. We have the most sophisticated delivery system and interconnection. We have light rail, subway, we have Metro, we have connecters all up and down the corridor so that high-speed rail is not something that will run by itself.

As opposed to, last week we heard about the major administration effort to produce high-speed. They are doing it between, I think, Bakersfield and Fresno in California, where there are very few people. Their intention is long-term, to connect it into population centers in San Francisco and Los Angeles, but it will be a long time before that is accomplished.

Right now we do have the connectivity that we need, we have the population. And then we also have the only corridor, this 430-some-mile corridor, is almost entirely owned by Amtrak, the American people and the taxpayers. That is as opposed to the rest of Amtrak service, 20,000 miles of service, long distance and some intercity service, on which Amtrak runs on private freight rail that is maintained and paid for on a lease basis to the private sector. And we, in fact, again, own this corridor.

We have also highlighted before—actually, when I took the chairmanship in October of 2010—a report, and the title is "Sitting On Our Assets: The Federal Government's Misuse of Taxpayer-Owned Assets." The first part deals with GSA, and we have taken on GSA and some of the idle buildings that have sat vacant. In fact, met with Mr. Tangherlini a few minutes ago to continue that effort to get empty buildings filled.

But if you read through this report, it also talks about the Northeast Corridor, which is one of the most valuable assets, transportation infrastructure assets, in the entire world, not just the United States. And it is an asset that we are sitting on that the taxpayers own. It probably never will be developed to its fullest potential by Amtrak. The Federal Government just has trouble operating a two-car train set, let alone developing a corridor with incredible real estate development potential and as a transportation and communications corridor. But this outlines, again, part of our goal was to take this asset, turn it into a valuable return and a transportation system for the American people.

So we did our first hearing January 27, 2011. We had heard, at that time, I think the plans by the administration were to spend—and they had developed these plans in September 2010. They were going to develop the Northeast Corridor. It was going to cost $117 billion and take 30 years. The most recent projection that we have—and part of this hearing is to focus on where we stand with that effort to move forward and making this truly high-speed—but they are looking at $151 billion and also 30 years. My premise is that it can be done in a third of the time and probably at much less cost.

You will hear Amtrak come forward in a few minutes, and they are going to tell you how their ridership is over the top, they are at 31 million, something like that. We probably have that many passengers in the DC Metro system in 1 month. But then they will also tell you their success in the Northeast Corridor. The figures we have from their reports are the Northeast Corridor had 12.9 million riders in 2000. In 2012 recently released figures—and this is on the fiscal year, not the annual year—they had 11.4 million riders. Most of the increase has been in the State partnerships and other partnerships rather than, again, totally in the Northeast Corridor.

The Northeast Corridor—and I think their projections are right; I have looked at their study—predict that you could have as many as 40 million riders in the Northeast Corridor, which is a number of times more than we currently have. Unfortunately, the train runs about 83, 84 miles per hour, average. They will tell you that they can get up to speeds of 150 to 160 miles per hour. That is not high-speed. The way it is calculated, it is average miles per hour. The minimum, actually, if we have a standard, is 110. Almost every high-speed train in the world is running today at 130-some, 150 miles per hour, average. And here we are in the dark ages, as far as 83 miles. You will probably hear from Mrs. Maloney in a few minutes. The segment from New York to Boston is, I think, around 68 miles per hour, average. Pitiful.

Again, I started to talk about some of the horrible history highlights of Amtrak's attempts to get into high-speed rail. They did acquire a train some years ago; called it the Acela. The acquisition was a total disaster. There were extended, very expensive lawsuits that went on and on.

They acquired a European design and they acquired a European sleek model that was allowed to tilt because you could get faster speed and you had curves and other things that could enhance the speed. Unfortunately, Amtrak, in the way it handled first the ac-

quisition and then the redesign of the equipment, redesigned the vehicle so they were wider. And they miscalculated because when the train got to higher speeds and it tilted, the wider trains would hit. So to compensate for that, they had to put metal shims into the expensive high-speed rail tilt trains that they bought so that they wouldn't tilt.

So that was the beginning of the fiascos, but, unfortunately, the failure went on and on. For about a half a year, we closed down most of the Acela operations because they didn't have brake parts. They bought equipment for which they didn't have parts. And, again, another sad chapter in both their acquisition and operation and ability to operate and maintain any semblance of intercity passenger service in that corridor.

They will tell you that they do make money, but they don't tell you that most of the capital that we provided, both from the Congress and also the subsidization and the stimulus money, has been spent for capital improvements. I defy anyone who is in business to not include some capital costs in your expenses.

So that is part of the problem that we face. I want to say, we have some friends from labor here. First of all, I kind of like leaving my position of chairman because I have had so many items to say grace over. And I might add, at this juncture, too, I am very pleased of the progress of this committee in 20 months, 20-some months. We passed almost every major piece of legislation. We passed a transportation bill that they said we couldn't pass. We passed an FAA bill that had 17 extensions. We passed a pipeline safety bill. Last night, the Senate passed our Coast Guard bill, and it is on its way to the President of the United States for his signature. And we are negotiating reauthorization provisions for FEMA, which would be the only remaining item that hasn't been addressed. So I think it is a record that speaks for itself.

We have made some progress—well, I started to say about labor, I want to tell our labor folks that I remain committed to making certain that the benefits, the wages, the retirement opportunities remain constant for our Amtrak employees. However, their future is dim. If you continue down this path, which some of the labor leaders have led our workers on, we have gone since I came to Congress from 29,000 Amtrak employees to 19,000. And if you continue down this path, I don't think that is hopeful. If we actually expand the service in the Northeast Corridor and create true high-speed service, I believe it will be replicated where it makes sense across the United States, and opportunities for workers will expand, not contract.

Finally, we have made some progress. We have finally gotten a designation of the Northeast Corridor by the administration as a high-speed corridor, which wasn't done before. We are now undertaking an environmental review. I am hoping we can assist them—and we will hear more of the progress of that—in speeding this up. We have provisions that were written under PRIIA, which I actually helped author, and we need to look at improvements in PRIIA so that we can move forward on an expedited basis, not only with environmental review but also with construction, operation, and future maintenance of these systems.

And, finally, I am pleased with the progress of the Northeast Corridor Infrastructure and Operations Advisory Commission. We will hear from them today. They are moving in the direction that we set by law, but we want to make certain that we move that timetable forward. The Northeast Corridor is vital not only because of the mention I made of congestion and the interconnectivity and that we own the corridor, but also the entire country benefits because 70-plus percent of our chronically delayed airplane flights emanate from the Northeast Corridor. And everyone will benefit by having true high-speed rail in that corridor.

So, with those extended comments, and I had to take a little bit of extra time—being chairman, you get that discretion. That is the bad news. The good news is you won't away to put up with that again after this hearing.

So let me yield to my delightful, trusted, and wonderful, pleasant colleague and the former chair of the Rail Subcommittee, current ranking member, Ms. Brown, my colleague from Florida.

Ms. BROWN. Thank you.

First of all, I want to sincerely thank the chairman for his service as chairman of this committee. I do know that you really have a deep love for transportation. And I would ask that the committee and the people in the audience give you a hand for your service. Thank you.

[Applause.]

Ms. BROWN. And I wanted to welcome my classmate. We all came together, Mrs. Maloney and Mr. Mica. We are all in the great class of 1992.

I am happy that we are having this hearing today, but I really kind of wish it was on the Water Resources Development Act, which is something that we have not dealt with. I held a meeting yesterday between the Port of Jacksonville and the Corps of Engineers to try to find a way to fix the navigation hazards at the port. But because this committee has failed to even work on developing a water bill, those ships will continue to be in danger and the economic development of the port will continue to suffer.

Again, I am pleased that the current leadership of this House wasn't in charge when the Northeast Corridor was originally developed because it would not exist today. Just like high-speed rail in California, the Republicans' fondness for division on transportation is going to impact our Nation's economic development in a very negative way for a very long time.

Let's be clear: The Republicans are no friend to rail. They have plenty to say about what others are doing wrong, but they never put their money where their mouth is. Their only goal during 8 years of the Bush administration was to focus solely on destroying Amtrak, which is clearly still the purpose of this Republican House of Representatives Transportation Committee. There is no plan to improve our Nation's rail system, no investment made in creating a new system or our current system. In fact, the Bush administration and the Republicans in Congress spend most of their money rebuilding transportation infrastructure in Iraq and Afghanistan, they have spent more money there than right here in the United States of America.

So after 8 years of lip service from the Republicans, President Barack Obama committed real money to improve our Nation's rail system, including the development of high-speed rail. And, lo and behold, the same Members who didn't dedicate 1 cent to high-speed rail when they were in charge are complaining that the money wasn't spent the way they wanted it to be spent.

Mr. Mica's unhealthy obsession with privatizing the Northeast Corridor has eliminated support and even violates the U.S. Constitution. The chairman's privatizing language in the Passenger Rail Investment and Improvement Act of 2008 garnished no private-sector proposal for the Northeast Corridor, and his Rail Competition Act introduced last year was determined by the nonpartisan Congressional Research Service to be a violation of the Appointments Clause of the Constitution that would raise costs for States and commuter authorities and eliminate long-distance service.

I fully agree that we need true high-speed rail in the Northeast Corridor, but we need to have a serious conversation about how this is going to happen. And those hearings that focus solely on privatizing with the goal of making the administration look bad and "gotcha" politics need to stop.

I want to welcome today's panelists and thank them for joining us, and I look forward to their testimony.

And I yield back the balance of my time.

Mr. MICA. I thank the gentlelady.

And I also thank her for her comments. I agreed with the first part of her statement rather than the——

Ms. BROWN. Last part, right.

Mr. MICA [continuing]. Latter part.

But you could tell we do have a good rapport.

Who seeks recognition?

Mr. Sires?

Mr. Bucshon?

Oh, Mr. Sires, you are recognized.

Mr. SIRES. Well, thank you very much. I just want to say thank you for all the hard work that you have done in the last 20 months. We may not agree on a lot of things, but, certainly, transportation is important to you.

I also want to commend you on your portrait. You look like you are 30 years old. It looks great.

Mr. MICA. Thank you.

Mr. SIRES. And, you know, as someone who rides the rail just about every weekend, you know, this corridor is really important to me because I am a rider, and I see how it is packed all the time.

Do I wish we had a super-speed? Absolutely. You know, it takes me about 2½ hours to get from Newark to Washington, DC. And could we make it a lot better? You know, absolutely.

This region, the northern region, is a very congested area. And if you really want to see it, drive up once in a while like I do and get on the New Jersey Turnpike at Exit 1, and you will see how you want to get back on the train because it is so congested and so much work.

I would hope that in the future we can really seriously, seriously think about high-speed rail. This is a region of the country that

generates jobs, and more important than anything else, it has the ridership to sustain such an investment. So I look forward to working in this committee toward that.

And I want to thank the people at Amtrak, who week-in and week-out do a great job of trying to accommodate the people that ride. Could it be better? Absolutely.

Thank you very much.

Mr. MICA. Do other Members seek recognition?

Ms. Johnson?

Ms. JOHNSON. Thank you very much, Mr. Chairman and Ranking Member Brown.

The Northeast Corridor is the transportation artery through some of the most populous metropolitan areas and regions in the entire U.S. And it is essential for commerce, in that we are able to move goods and people up and down the eastern seaboard efficiently.

But with increased congestion both on our roads and in our skies, our current system is reaching its capacity. Not only are we currently reaching that capacity, but it is estimated that an additional 15 million residents will live in the already congested Northeast Corridor by 2050, a 30-percent increase. It is for this reason that our continued investment in passenger rail is so essential.

The recent Thanksgiving holiday set a record for Amtrak ridership with 737,537 passengers. The record ridership brought in $56.1 million to Amtrak, an 8.4-percent increase over 2011. The Northeast Corridor is profitable and serves as a model for what we can accomplish with small investments in infrastructure in other parts of the country.

What is unclear to me is why there has been a constant drumbeat to privatize Amtrak and to starve it of its much-needed funding. As everyone on this committee knows, funding for infrastructure, whether it is for rail, transit, or surface transportation, has always come from the public sector. And only after we have made significant investments does it become attractive to the private sector. No one on this committee would suggest that it would be a good idea to privatize our roads or would suggest that it would be a good idea to privatize our bridges, yet we come back to this issue again and again with rail.

I would suggest that a more worthwhile endeavor for this committee would be to check the partisan politics at the door and examine how we can improve and expand all modes of transportation that the American people depend upon.

I thank you, Mr. Chair and Ranking Member, for calling this hearing and look forward to the witnesses' testimony.

I yield back.

Mr. MICA. I thank the gentlelady.

The gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

And I could not let this moment go by without thanking you, Mr. Chairman, for your leadership. You and I have served on this committee for many years, and we have also served on the Oversight and Government Reform Committee. And I know that you have worked very hard to bring about a lot of change in our Nation and to our rail system. We may not always agree on those changes and

how they should be made, but I have a tremendous amount of respect for you, and, certainly, I want to thank you for your service.

And I also want to thank Ms. Brown, Ranking Member Brown, for her leadership and her staunch advocacy for the rail system and particularly Amtrak.

Mr. Chairman, I could not let this moment go by, again, without at least expressing some disagreement with you with regard to unions. Unions are very, very important. It was unions that allowed my parents to raise seven children and, as former sharecroppers with only a second-grade education, in one generation to send their kids to college and allow me to be a Member of the Congress of the United States of America. It was unions. And I will fight until I die for the strength of unions because they do play a very significant role.

Now, as a representative from Maryland, I know how critical the Northeast Corridor is to ensuring mobility from the mid-Atlantic to New York and Boston. The corridor is also critical to local mobility and hosts many commuter rail lines, including Maryland's MARC system. Every year, 11 million passengers, our constituents, ride Amtrak in the Northeast Corridor, ridership that, as Secretary LaHood told this committee last week, is only expected to increase with population growth. Isn't that wonderful?

While the creation of the Acela service moved us in the direction of high-speed rail, the Acela service simply isn't as fast as we need. We need modern high-speed rail service, and we particularly need it in the Northeast Corridor. I remind us that this is America, this is the United States of America, the greatest country in the world. We should have the very best service in the world. For that reason, I strongly support the vision for high-speed rail set forth by President Obama, as well as the Department of Transportation's decision to designate the Northeast Corridor as a high-speed corridor.

At last week's hearing, I was pleased to hear Secretary LaHood discuss some of the progress that is being made in the efforts to modernize this essential infrastructure. I also applaud Amtrak's moves to develop a business plan that will attract appropriate private investment.

That said, I strongly oppose any proposal that would turn responsibility for the development of the corridor over to the Northeast States. Development of the corridor will cost billions of dollars, and it is simply unrealistic to think that the private sector will make that investment alone. And I know that my home State of Maryland, like the other States in the corridor, does not have the resources available to develop it.

I know that last week we heard from Edward Hamburger, president and CEO of the Association of American Railroads, who argued that there should only be one passenger rail operator, and that operator should be Amtrak. He stated that Amtrak is a leader in safety/security, operations, labor issues, and is a great partner for the private freight sector.

Of course, significant infrastructure improvements are needed all along the corridor to modernize it and enable it to meet the growing demand. In Maryland, for example, the B&P Tunnel, which carries every train traveling into Washington, DC, from points north of the city, must be replaced. The tunnel was open in 1873,

and its antiquated design limits train speeds to 30 miles an hour. We can do better; we must do better. This is the United States of America.

In an effort to begin the long process that will be required to eliminate this bottleneck, I supported inclusion of a provision in the 2008 rail safety legislation that directed the Federal Railroad Administration to work with Amtrak, the Service Transportation Board, the city of Baltimore, the State of Maryland, and rail operators to select and improve a new rail tunnel alignment through Baltimore that will permit an increase in train speed and service reliability.

This provision requires environmental reviews for the new alignment to be completed by September 30, 2013. The project subsequently received from the Recovery and Reinvestment Act $60 million in funding authorized in the rail safety bill to support the studies necessary to enable a new alignment to be selected. And so, Mr. Chairman, we move forward. And I know that we move forward with your blessings.

Again, I want to thank you for your tremendous leadership. And I want to thank all of our witnesses for being here today.

And with that, I yield back.

Mr. MICA. Thank you.

Do other Members seek recognition?

If no other Members seek recognition, then we will welcome our colleague, the Honorable Carolyn Maloney, who represents New York, and we will recognize her for a statement.

Thank you, and you are welcome.

TESTIMONY OF THE HONORABLE CAROLYN B. MALONEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mrs. MALONEY. Thank you so much, Chairman Mica and my good friend and colleague Corrine Brown, and the members of the Committee on Transportation and Infrastructure, for inviting me to speak at this hearing.

I am truly honored to be here at the chairman's final hearing, and I want to thank him for his focus on bringing high-speed rail to the Northeast Corridor and for his support of the Second Avenue Subway. I appreciate that last year's field hearing was held in New York.

To begin with—and I would just like to say, Mr. Chairman, I know this is your last hearing, and I hope you will keep your focus on the Northeast Corridor. And I would like to challenge you to start a bipartisan caucus of Republicans and Democrats to work together on the Northeast Corridor, all the affected States and communities, because we know how hard it is to push proposals through Congress and to make them happen.

I truly agree with your analysis that we could cut this price down a third and that we could cut the time down a third and build it in 10 years if those of us who care about it decided to focus on it, and if Corrine would help us out, who has always been such a great advocate on high-speed rail. So I hope you will think about that, and I appreciate what you have done already.

I just want to begin my comments by thanking the men and women of Amtrak, Metropolitan Transit Authority, the Long Island Rail Road, and all transit transportation workers who have worked around the clock to restore the services in New York after the terrible flooding from Hurricane Sandy. It was the worse destruction in 108 years of our transportation system, but because of their hard work, our trains are up and running again.

In tough economic times, it is critically important to make needed investments that will modernize our aging infrastructure, advance our mass transit systems, and strengthen our communities and workforce. High-speed rail and improved mass transit networks can play a central role in helping America keep its competitive edge in a global economy.

By comparison to rail systems in the rest of the world, our trains crawl along. As the chairman has pointed out, even our most ambitious plans aren't even anywhere near truly high-speed rail. Acela averages only 83 miles per hour along the Northeast Corridor, while some European and Asian trains race by at more than 180 miles per hour. The connection between two major business districts in our country, between Boston and New York, it inches along at 68 miles per hour. And imagine, if we could cut that and speed that up, how those business districts would boom and expand with a more efficient and productive economy.

Where once American ingenuity brought rail service through the wilderness from coast to coast, in recent decades the U.S. has systematically failed to invest in the modern rail system. I thank President Obama for making high-speed rail a priority. Instead of developing energy-efficient mass transit, we have allowed our rail system to deteriorate. We are not just lagging, we are not even trying to innovate. That is just not the American way.

As a resident of New York City, I fully understand the tremendous value of access to high-speed passenger rail service along the Northeast Corridor. It is the busiest rail line in the United States, and it is the only Amtrak segment that runs an operating surplus. It is making a profit. Of all the places in our Nation, high-speed rail makes most sense along the Northeast Corridor, which features the most congested roads and airspaces, the densest population, and the most interconnected cities. And it has the ridership to make a profit for the investment in this rail system.

From Washington to Boston, the Amtrak stations are located right in the city centers, making them more accessible to business travelers in the airports. The northeast region also has the densest population in the country. Fully 20 percent of the Nation's entire population lives in just this 2 percent of our land area in our great country.

Seventy percent of all chronically delayed flights originate in the New York area airspace, causing delays across our country. And 60 percent of the northeast region's road miles are considered heavily congested. Last year, when Florida's Governor rejected high-speed rail funding for his State, I urged our President, our mayor, our Governor, the New York delegation, and other delegations to redirect some of the money to New York. I was pleased he responded, with the help of the chairman and the New York delegation, our Governor and our mayor, by directing $295 million of these funds

to a project that will improve what is called the Harold Interlocking, a century-old intersection of 14 train tracks, where hundreds of trains travel east and west of New York are sorted out each day and is very confusing in a very delaying area.

Located in my congressional district, this project helps eliminate a bottleneck that has plagued train travelers for years. Investing in these improvements will help relieve delays and pave the way for high-speed rail from New York to Boston. I consider it the first link in this important vital rail system. It will create over 9,000 jobs and will boost economic activity in our region by over half a million dollars.

While I commend this investment, Amtrak estimates that at this rate it will take until the year 2040 before the U.S. has high-speed rail. The need for high-speed rail is so pressing today, we cannot afford to wait another generation. We used to lead the world in rail. We are now trailing far behind.

There is general agreement that public and private partnerships should be included in a larger Federal planning strategy for the Northeast Corridor. Amtrak's long-term plan provides a template for joint ventures that is worth discussing. New York's Governor has met with the New York delegation and asked us to include public-private partnerships. And the MTA, which is strapped for cash, as is our State—and I join my colleague, Mr. Cummings. The States cannot afford this; we don't have the money. So the MTA is open to partnerships as long as unions and worker rights are protected and all the rights that are put in place for the protection of workers, the environment, pension and other rights.

Investing now in world-class high-speed rail would pack a double punch. It would create high-paying jobs and spur economic development throughout the program. We are long overdue for high-speed rail, and it is time to put this country on the right track. I thank the committee for drawing attention to the importance of high-speed rail, and I look forward to the day when high-speed passenger rail is operating in the Northeast Corridor.

In closing, Mr. Chairman and Ranking Member, if we really support high-speed rail, then projects that we fund have to be successful and they have to be profitable. Right now, the Northeast Corridor is profitable. It is the only corridor that is profitable in the whole Nation. So investing in high-speed rail now would boom. My colleague, Congressman Capuano from Boston, we both travel between New York and Boston, usually a 3½-, 4-hour ride. If we could cut that down to an hour and a half or 2 hours, it would be a boom to economic development in two important business employment districts in our great country.

So I applaud your attention to it, and I want to be on your team in helping to implement and support transportation in any way. It is vital to our country, but particularly high-speed rail.

How did the great country, the great United States, fall so far behind the rest of the world? How did the most prosperous country, the most innovative country, fall so far behind the rest of the world? You can be in Paris and in an hour and a half be in London, riding their high-speed rail. You can move across China throughout their many provinces on high-speed rail. We do not have it. We aren't even close to it in the great United States of America. And

if it is going to happen in America, it has to happen with the leadership of you, the leadership of this committee.

Thank you for listening to me. Thank you for all the work that you do for transportation across our great country. And I welcome any questions.

Mr. MICA. Well, thank you.

I don't think we will question you, but I will ask unanimous consent that Mrs. Maloney be extended the courtesy to sit on our panel. And after other Members have been heard or questioned, you will have the opportunity to participate, if you like.

Without objection, so ordered.

Thank you so much for your testimony.

Mrs. MALONEY. Thank you, Mr. Chairman.

Mr. MICA. I will just say two things.

One, you asked about the caucus. I don't make many pledges. Didn't even pledge to term limits, but that is another story. But I did make a pledge when I first ran not to join caucuses, and I actually spent part of my early part of my career dismantling select committees and things that had grown into huge bureaucracies. Filled the whole building next to us, where the parking lot is; now we took that down. So I can't do that.

But I can tell you, I will be focused on two projects, and one will be the high-speed rail and the Northeast Corridor, whatever it takes. And I will work with you and others in that positive regard.

So thank you. And we will let you go, and we will turn—we are going to have a vote, so we will turn to our witnesses and try to get them up.

Mrs. MALONEY. May I thank the gentleman and chairman for allowing me to join the committee. I am in another committee——

Mr. MICA. This will be going on for some time.

Mrs. MALONEY [continuing]. That I have a responsibility to be asking questions and participating. So thank you for that honor. If my other committee meeting finishes, I will come back and join you.

Mr. MICA. Thank you so much. We will welcome you. And thank you again for coming to the committee and testifying.

Ms. BROWN. I did have one question.

Mr. MICA. OK. Real quick.

Ms. BROWN. I just had one question. Because, you know, I am 100 percent supportive of high-speed rail in the Northeast Corridor. And one of the problems or one of the challenges, it is not just high-speed; it is making sure the train is there at a certain time, you know, making sure it is reliable and it is going to be there every day at 10 o'clock or whatever time.

But the time from, I think Boston to Washington is about 8 hours, which is ludicrous. And as you said, that corridor between New York, Boston, and Washington is key. However, part of the problem is that you have so many local communities. And even in your area, where we had the hearing in New York, it is not just Amtrak, it is several agencies, several communities that are involved.

And so it is not just that Big Government can't come in and say that we are going to do it this way, it is pulling all of those communities together. And what is your—and you don't have to do it now,

but it is just that we can't come in as a Federal Government and say, We are going to do it this way. These communities are already built up.

Mrs. MALONEY. Uh-huh. I thank Corrine for your question.

When the high-speed money was returned and we discussed it, because you were distressed that Florida was sending it back and——

Ms. BROWN. I am still distressed.

Mrs. MALONEY. And I appreciate that, you know, you were pushing to have it in Florida, but your Governor made another decision, so we reacted to that.

But I went to MTA, which is the transportation hub and director in our region, and first proposed that they go after getting the high-speed rail between New York and Washington. And they said that would be so difficult because of what you just said: It is extremely built up along the corridor, very, very built up. And they couldn't see how they could build that quickly because of the communities that were blocking it and the fact that we did not own the rail. They said they owned the rail. The Federal Government and the MTA owns the rail lines between New York and Boston and that that would be much easier. And they said, Shift your focus to New York and Boston. And with the Governor's support and the mayor's support, that is what we did.

Now, that is why we need, exactly what you are saying, why we need a task force or a meeting, I don't care what you call it, of Members of Congress that are affected by that rail line to get together and make it happen, to get the communities behind it. And, you know, it goes through many States, and so it would have to be a collective State-led—Members of Congress from those States working to help make it happen.

But according to the MTA, they own a lot of the lines, meaning the MTA owns it and the Federal Government owns it. And it is not as dense. It goes through the countryside, the rail now; it is not going through cities as much. But they said going between New York and Washington. You know I would love to cut that time down since I am on that train every week.

Ms. BROWN. That is right. That is right.

Mrs. MALONEY. But they said Boston and New York made sense, would be more economical, there would be less hindrance of already-built-up neighborhoods, and that it could be done quicker and cheaper.

And I think it is important for those of us who support high-speed rail to have a success. We want it to make money. We want to show America that this is something we should invest in and that it is going to pay dividends back and that we should be building it in every State and we should be building it clear across America.

But there are certain areas in New York where it is not going to make money because the ridership isn't great. The ridership between New York and Boston is packed to the limit every single day. I am convinced if we could build that line it would make money. I am convinced.

Mr. MICA. I thank the gentlelady.

We don't want to get into too much of a debate with the Member at this point because we do have a large panel of witnesses and we are going to have votes.

So thank you so much, Mrs. Maloney.

I will ask the other witnesses if they can begin occupying their seat.

We have Karen Hedlund, and she is the Deputy Administrator of the Federal Railroad Administration. We have Joe Boardman, the president and CEO of Amtrak, as a witness. We have Joan McDonald, chair of the Northeast Corridor Infrastructure and Operations Advisory Commission and also commissioner of the New York State Department of Transportation. We have Dr. Richard Geddes, adjunct scholar of the American Enterprise Institute. We have Mr. Perry Offutt, who is a managing director at Morgan Stanley. And Mr. John Tolman, who is vice president and national legislative representative of the Brotherhood of Locomotive Engineers and Trainmen.

I want to welcome all of our witnesses. We are trying to get to as many as we can. They are going to call a vote in a few minutes. If you have a lengthy statement, it will be submitted, by unanimous consent, to the record. I would like to have you summarize, and then when we finish with everyone, we will go to questions. So thank you so much for joining us.

And we will turn first to Karen Hedlund. And she is the Deputy Administrator of FRA.

Welcome. And you are recognized, ma'am.

TESTIMONY OF THE HONORABLE KAREN J. HEDLUND, DEPUTY ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION; JOSEPH H. BOARDMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMTRAK; THE HONORABLE JOAN MCDONALD, CHAIR, NORTHEAST CORRIDOR INFRASTRUCTURE AND OPERATIONS ADVISORY COMMISSION; AND COMMISSIONER, NEW YORK STATE DEPARTMENT OF TRANSPORTATION; R. RICHARD GEDDES, ADJUNCT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE; ASSOCIATE PROFESSOR, DEPARTMENT OF POLICY ANALYSIS AND MANAGEMENT; AND DIRECTOR, CORNELL PROGRAM IN INFRASTRUCTURE POLICY, CORNELL UNIVERSITY; J. PERRY OFFUTT, MANAGING DIRECTOR, MORGAN STANLEY AND COMPANY LLC; AND JOHN P. TOLMAN, VICE PRESIDENT AND NATIONAL LEGISLATIVE REPRESENTATIVE, BROTHERHOOD OF LOCOMOTIVE ENGINEERS AND TRAINMEN

Ms. HEDLUND. Chairman Mica and Ranking Member Brown, thank you very much for inviting me——

Mr. MICA. Pull that up as close as you can. It is a little hard to hear. Thank you.

Ms. HEDLUND. Thank you for inviting me to speak to this committee.

And, Mr. Chairman, I want to say it is a great honor to testify before this committee during its final hearing with you at the helm. You have achieved significant legislative accomplishments during your tenure, and your oversight and interest in rail programs has really strengthened our agency while improving transportation op-

tions throughout the country. And we look forward to continuing to work with you in the coming session.

This morning, on behalf of President Obama and Secretary LaHood, I also thank you for this opportunity to discuss our planning and development efforts in the Northeast Corridor, which, as has been stated, is one of the most valuable transportation assets in the United States. And the details about these efforts, which are called NEC FUTURE, are detailed in my written submission.

Today, as we look ahead, we know the northeast region's passenger rail market is as strong and full of potential as any in the country, but clearly the time has come to plan for and invest in the future of the Northeast Corridor. And so we are moving forward with a strategy that is focused on both its immediate and long-term needs.

We are overseeing a comprehensive regional planning effort, and this multistate transportation planning project is one of the largest ever undertaken in the United States. As we look to invest in the next generation of NEC services, our initial focus with this planning project is to thoroughly understand the true needs of the market. This is going to be a market-based assessment, and we will know from the very beginning what types of rail services will be needed to meet future demand.

We are also seeking innovative ways to enhance the overall planning and environmental process. I know that is an important issue for you. So as part of that effort, early this year NEC FUTURE was selected by the Council on Environmental Quality as a pilot project that aims to better engage stakeholders and, importantly, all the Federal and State resource and regulatory agencies early on in the planning process. And we expect that that will produce significant time savings as we go through the entire planning and environmental process.

It is important that we continue to invest in all transportation modes, not just rail, but the public benefits of the Northeast Corridor are central to transportation planning for the following reasons: Transporting more people by trains will take pressure off the region's highways and airports, which, as we all know, are both overburdened and out of room to grow. And when targeted to the market, rail is the most cost-effective, least oil-reliant, and most environmentally friendly mode.

Our current investments are adding or upgrading track, untying bottlenecks, modernizing power systems; as has been mentioned, reducing delays at spots such as the Harold Interlocking. We are working to upgrade stations from New York to Boston. And we are moving forward with engineering projects to replace some of the most complex and oldest infrastructure—the Portal Bridge, the Susquehanna Bridge, and, as been mentioned, Baltimore's B&P Tunnel. These will be enormous undertakings in and of themselves.

But I think we can all agree, in order to truly position the Northeast Corridor for future demand, we need a vision, we need a framework that will allow this vision to move forward, one that will provide us with an immediately actionable rail investment plan, a blueprint to guide our actions. And we are going to complete this process with an exhaustive public engagement over the next 38 months.

Already we have seen what can happen with a big leap, how Amtrak's Acela service came gradually to dominate the air-rail market in the region. But we know there is demand out there currently that is unmet, and that demand will continue to rise, and ultimately we can't meet that demand without a sustained commitment from the Federal Government. Today it is up to us to rise to that challenge, just as we have so many times in the past.

And we have been recently reminded of this after Hurricane Sandy, which caused unprecedented damage to the Northeast Corridor. After around-the-clock efforts to restore services, to de-water the tunnels, we saw a crystal-clear picture of just how essential the Northeast Corridor is to both the economy of the region and our way of life.

It makes you think: What if Alexander Cassatt, the president of the Pennsylvania Railroad, had listened to his critics back in 1900 and had given up digging those two tunnels across the Hudson River, tunnels that connect New Jersey to Manhattan? Today, Penn Station accommodates 550,000 passengers a day. That is double the passengers that go through the three airports of New York. But in 1900 those tunnels were called a boondoggle, too expensive, impossible to build. Some of the Cassatt's shareholders probably thought he was nuts. But today could you imagine New York without it? Well, Sandy showed us what New York looks like without it.

So it is up to us now to create the vision, to do the planning, to execute the projects that will ensure we hold true to a basic promise, as the Secretary said last week, that the America we leave for future generations is even greater, even stronger than the America our parents and grandparents left for us.

And I look forward to answering your questions.

Mr. MICA. Thank you.

And we will hold the questions. I just have one quick thing. Have you read "Conquering Gotham"?

Ms. HEDLUND. Yes, sir, I have, with great interest.

Mr. MICA. OK. I was going to make sure you had a copy if you didn't.

Mr. Boardman, our Amtrak president and CEO, you are recognized. Welcome back.

Mr. BOARDMAN. Thank you, Mr. Mica, and thank you for your service.

One of the other things I would like to thank you about is that you have put a focus on the Northeast Corridor, and I appreciate that. We put a vision out in September of 2010, and by January 2011 you began with a hearing.

By February of that year—and I would just like to summarize quickly because I know you want to move through here quickly—we proposed the Gateway project to support that vision of high-speed rail. In March, the U.S. DOT named us as a Federal corridor; you already identified that. By May, we were awarded $450 million to improve the speed in New Jersey on what we call the "Raceway."

By June, we were in a situation where we had a peer review by our European and Asian high-speed rail operators, validating our proposal of next-generation high-speed rail. In August, we began work on a business and financial plan with KPMG to understand

how we can work in the private sector; how the public-private partnerships might work in that process. In November, the board approved the Amtrak strategic plan, which included the creation of the NEC Investment in Infrastructure Development business line.

In February of 2012, the FRA launched the Northeast Corridor FUTURE, which was a comprehensive planning initiative to prepare this corridor, which was necessary for us to move forward with. By July, Amtrak was—and you were there, and we appreciate that—Amtrak was a signature sponsor and a participant in the eighth World Congress on High-Speed Rail. It was the first to take place in the United States. We also updated and integrated the high-speed rail vision, at that point in time, with the Northeast Corridor Master Plan. And we completed the Northeast Corridor Business and Finance Plan at that point.

Just this past September, we ran tests with the Acela Express equipment. We operated at speed tests of up to 165 miles an hour in order to demonstrate that we could do those kinds of speeds in several locations along the corridor designated for improvement.

And this morning what I want to tell you is that we are not going to add any additional cars to the Acelas the way that we had originally planned. They are too expensive, and also what we really need to do is to replace the Acelas with a new set of train and equipment. And our expectation is that we will have an RFI, a request for information, in February or early this next year to make that happen.

I have told our folks they need to get this done by the time I am 70, and I will be 64 next week. Thank you.

Mr. MICA. Thank you.

And let me now recognize and welcome Joan McDonald, who is the chair of the Northeast Corridor Infrastructure and Operations Advisory Commission.

Welcome, and you are recognized.

Ms. MCDONALD. Thank you, Chairman Mica. Good morning.

Good morning, Congressman Nadler, it is good to see you, from my home State, and members of the committee.

The Northeast Corridor Commission was authorized by Congress in recognition of the inherent challenges of coordinating, financing, and implementing major system improvements that cross multiple jurisdictions. The expectation, as you laid out, is that by coming together we will take collective responsibility for the Northeast Corridor.

Realizing a bolder vision for the future does require unprecedented collaboration. Comprehensive planning is difficult for a system that spans eight States and the District of Columbia, supports nine passenger rail operations, supports four freight railroads, and has four separate infrastructure owners.

The Northeast Corridor line, as everyone knows, is one of the busiest and most complex railroads in the world. It carries over 2,200 commuter, intercity and freight trains every weekday. These trains carry over 750,000 passengers daily.

The Northeast Corridor must balance acute investment needs just to maintain the safety and reliability of current services with the need to address growing service demands. Hundreds of the corridor's bridges and tunnels are more than a century old and major

portions of the corridor's electric power supply were installed in the 1930s, and echoing my fellow colleagues on the panel, we see what happened with the electric system during Hurricane Sandy.

The fact that commuter and Amtrak services intersect at common facilities inevitably means delays to any one service could quickly cascade and adversely affect the on-time performance of all rail services. With major segments at or near capacity, all services that utilize the corridor are increasingly susceptible to service disruptions resulting from infrastructure failures.

In January the Commission will be releasing a report on the corridor's critical infrastructure investment needs. Input to the report was provided by Amtrak, the corridor States and other freight railroads through a collaborative process. While nine States are part of this organization and this Commission and we recognize that the assets are in individual States, we recognize that those assets transcend geographical boundaries. It is one corridor.

The Commission's authorizing legislation directs that we develop a cost-allocation methodology for use in the corridor that ensures that there is no cross-subsidization between intercity, commuter and freight rail service. Our aim is for this process to set a foundation for increased Federal and State investment in the corridor's infrastructure. In return for increased State investment, we are exploring options to address the governance of the corridor to ensure that the States are equal partners in the decisionmaking process. Our goal is to have a recommended cost-allocation methodology by the end of this fiscal year. We are also engaged in activities examining the long-term rail needs in partnership with the FRA's Northeast Corridor FUTURE program.

Hurricane Sandy gave us all a vision into the chaos that would ensue without the vital rail assets that are so critical to the economy and our region. We all watched as our elected leaders prioritized the reconnection of rail service to get the region moving again. We commend the railroad and transit employees who made heroic efforts to restore these services as quickly as possible.

The Northeast Corridor is a national resource, and, along with the I–95 corridor, the transportation backbone of the northeast region. However, the corridor's current path is unsustainable. The reliability of existing service is threatened by capacity chokepoints and significant state-of-good-repair needs. Meeting our future needs, due to increasing demand for these services, is simply not possible without significant investment in new capacity. In short, the Commission is planning for the future at the same time that we are looking to address the very significant challenges that the corridor is facing today.

On behalf of my fellow commissioners, in closing I want to extend our appreciation for this committee's strong support for the Northeast Corridor, and we look forward to continuing this partnership. And in particular, I want to thank you, Chairman Mica, for your support of the Northeast Corridor, and we look forward to a continued dialogue with you. Thank you.

Mr. MICA. Thank you.

And we will now recognize Mr. Geddes, and he is an adjunct scholar at the American Enterprise Institute.

Welcome, and you are recognized.

Mr. GEDDES. Thank you, Mr. Chairman Mica. I appreciate the opportunity to be back and speaking to the committee once again. And I just wanted to note that in addition to my affiliation with the American Enterprise Institute, I am an associate professor at Cornell University in the Department of Policy Analysis and Management, and that just this semester, with a Cornell grad, John Foote, a class of 1974 engineering grad whose company developed E–ZPass, we have started a new program in infrastructure policy at Cornell. And I have some information about that, and that is to educate future generations of students and young people on the important issues that this committee addresses.

And I hope to be able to work with the committee in the future and hopefully with yourself in developing this program. In fact, I think it is one of only two such programs that are currently operational in the United States focusing on infrastructure policy, the other one being at the University of Minnesota. So I would just like to draw everyone's attention to that and seek your advice on that.

I want to address a few things regarding the topic that the committee is focusing on today, which is the Northeast Corridor's future and options for high-speed rail development and private-sector participation in transportation.

There are a couple of key issues I would like to address. The first is to get a concept on the table that I think is extremely relevant for this debate that is, I believe, absent, which is the concept of a residual claim. Sounds like sort of an academic concept but I think very important, a residual claim as well as residual claimants. Second, I want to be clear about the value that I think private participation in the Northeast Corridor can bring to the Nation in several different ways. And third, I would like to emphasize that the gains from private participation, as judging from a number of economic studies that focus on this, do not come from reducing wages or reducing employment once you get more private participation. They come from increased value creation and value capture due to the incentives and the skills of the private-sector partners that you bring in.

I also want to emphasize that through competitive public-private partnerships, it is possible for the public sector to realize the value associated with private participation now through upfront concession payments that we have seen. So the public sector does not have to wait to realize these benefits.

I want to emphasize that a residual claim is defined as a property right to the profits from a given economic activity; that is, who actually has a right to obtain the value that they create from undertaking new efforts and economic activity. This is a key public policy issue for the Northeast Corridor. The question is, are the property rights to the value creation from additional investment and effort clearly assigned to some well-defined group? I think it is difficult to overstate the importance of this, and I don't think they are at present.

One of the key things that private participation does is to introduce clear, well-defined residual claimants who have a right to capture the value that they create by better using the current assets that we have on the Northeast Corridor. Private participation creates such well defined residual claimants.

From this fact of the impact of bringing in private participation and residual claimants, a number of important social benefits can be obtained. Those include the expertise and skills of the private sector, those include the sharp, focused incentives that you get from private participation that you do not currently have, and they also include access to new types of capital, particularly equity capital, which is risk-taking capital that is critical. Those three aspects of private participation create enormous social benefits from increased private participation on the Northeast Corridor.

I want to note also that there are inherent risks, substantial risks in these types of activities that are currently entirely being borne by taxpayers. One of the key benefits of bringing private participants into this situation is that you have people who are experts in bearing risk, that is a service that they provide, is a risk-bearing service, and they make the cost of that risk bearing transparent. I think that is actually an enormous benefit of bringing private participation in.

I will just close by noting that one of the, I think, underappreciated benefits of private participation is the fact that the public sector can realize that value immediately through competitive bidding by competing groups of potential private participants in a number of areas. Suppose it is operating a train station, for example, and you can concession that out, receive an upfront concession payment, as Maryland did on some of the I–95 rest stops that I noted in my testimony, and that that is one major advantage of bringing in private participation that is not reliant on negative effects on labor.

So, thank you, Mr. Chairman, and I will stop there.

Mr. MICA. I thank you.

And what we are going to have to do, we have a vote going on right now, we have 2 minutes to get to the floor. So our two panelists, we will return. I think we can be back here at 11:45. We will reconvene at 11:45. We will hear both of our remaining witnesses.

So with that, the committee will stand in recess for one-half hour. Thank you.

[Recess.]

Mr. MICA. Like to call the Committee on Transportation and Infrastructure back to order. And we had three votes and now return to the hearing of our witnesses that remain. So we will proceed. It is the designated time that I indicated we would resume.

So with that, pleased to recognize the managing director of Morgan Stanley, Mr. Perry Offutt.

Welcome, sir. You are recognized. Sorry about the delay.

Mr. OFFUTT. No problem, Mr. Chairman. Thank you for having me. My group works——

Mr. MICA. Might pull that up right close because we can't hear you.

Mr. OFFUTT. Hopefully that is better. Thank you again for having me this morning.

My group works with clients both on the public and private sector trying to seek out opportunities where private capital could be used to invest in U.S. infrastructure. As a financial adviser focused on this area, I appreciate the opportunity to share my perspective on some of the key considerations that could affect interest from

the private sector—financial investors, construction companies, and rail operators—in participating in the design, construction, operation, maintenance, and financing of a high-speed rail project along the Northeast Corridor.

Public-private partnership structures have been used for numerous construction projects and have demonstrated that the private sector, one, can often build a project more quickly and at a lower cost; two, drive efficiencies over time by introducing technology solutions; and, three, develop incremental revenue sources by delivering additional services.

While there hasn't been a public-private partnership, or P3 transaction, involving a U.S. high-speed rail project, there are similar greenfield P3 transactions that can provide a guideline for financing this project. I also believe that there are numerous companies interested in high-speed rail in the U.S. given their experience building and operating high-speed rail systems internationally, specifically in Europe and Asia. These operators and construction companies would join bidding groups with financial investors to bid on the right to design, build, operate, maintain, and finance this project. After being prequalified, the winning bidder is usually chosen based on lowest cost.

One of the key considerations is, if the project generates enough operating cash flow, the private sector would be compensated over time for their investment by receiving the net revenues generated from the project. However, if the project does not generate adequate annual net revenue, the bidding groups will require an ongoing revenue supplement from a Government entity, known as an availability payment, to ensure that they will be able to cover their cost and earn an adequate return on their investment.

If the revenues reach a certain level, the availability payments could go away and the concessionaire would only be entitled to the project's revenue. As a result, the availability payment could be structured as a floor to support an investment grade financing and attract maximum private investor interest.

Given the existing passenger rail footprint in the Northeast and high-population density in key urban areas, the project would be a very profitable operation, and the private sector could also rely heavily on significant historical traffic information along the Northeast Corridor and be very confident about their estimates regarding ridership.

As I previously mentioned, one of the primary reasons for entering into a P3 transaction is to transfer risk of construction and operations to the private sector. However, private investors will also expect some comfort from the Government on a few important risks associated with the project. One, how potential cost overruns will be dealt with, especially if they occur as a result of Government action; two, ensuring some level of protection against Government investments in future competing transportation infrastructure; and, three, assessing the political support for the project at the Federal, State, and local levels.

Thank you very much for the opportunity to testify this morning on this very important topic, and I would be glad to answer questions later.

Mr. MICA. Thank you, and we will hold questions.

We have now the vice president and national legislative representative of the Brotherhood of Locomotive Engineers and Trainmen.

Welcome back, Mr. Tolman.

Mr. TOLMAN. Thank you, Mr. Chairman, and appreciate the opportunity to be here on behalf of the 36,000 active members of the Brotherhood of Locomotive Engineers, Teamsters, and over 70,000 Rail Conference members. I appreciate the opportunity to speak to you, Mr. Chairman, and for your services to this committee. It is truly an honor to me to be here at your last hearing as the chairman of this committee. I have appeared before this body many times in the last several years and always enjoyed your questions and comments, and look forward to working with you and members of this committee into the 113th Congress. But thank you.

Today I would just like to talk about a personal experience as a locomotive engineer on Amtrak, as well as the BLET's position on Amtrak's progress and successes in the Northeast Corridor. Also would like to compare to other countries' passenger rail high-speed service as they relate to privatization.

I was an Amtrak engineer and operating trains in the Northeast Corridor in the mid-1970s and early 1990s. From its inception, I remember Amtrak being chronically underfunded. As a young man, I remember coming down here some two decades ago trying to secure some funding for Amtrak to preserve a safe and reliable rail passenger service and save the jobs of my fellow employees, all professional and highly skilled workers. Now, 20 years later, I am still fighting the same fight.

I remember running test trains on the Northeast Corridor at 150 miles an hour with a 40-year-old diesel and passenger cars that were over 40 years old. I have seen the growth and I have seen improvements in the Northeast Corridor, from electrification of the main line and improved crossovers for high-speed trains. You know, while positive train control made national headlines the last several years, Amtrak has had a form of PTC in the Northeast Corridor for almost 20 years, all this while Amtrak's funding is a fraction of that spent on other modes and by other countries.

It is, frankly, embarrassing to compare Government funding for Amtrak with U.S. Government funding for domestic aviation and highways, and passenger rail funding for European and Asian countries. To build and maintain one of the best highway systems in the world, we have spent $114 billion and built it over 35 years. In today's dollars it would be $426 billion.

But times have changed. Congestion on our roads are at historic levels, and by the year 2020, 90 percent of urban interstates will be either at or over capacity. And anyone who has had the pleasure of flying recently knows the serious problems that plague our Nation's airports, flight delays, cancellation, overcrowding planes. In fact, in spite of all this, Amtrak now carries more riders from New York to Boston than all other airlines put together, 50 percent of all the people that travel this distance, and between Washington, DC, and New York City Amtrak carries more than twice as many passengers as all airlines combined. Today it carries 75 percent of intercity travelers between New York and Washington.

Amtrak has done all this with the threat of funding cuts and privatization, especially of the profitable Northeast Corridor, hanging over its head. We know that in other parts of the world, privatization of high-speed passenger rail has been tried and has failed to solve the problems it was intended to solve. These plans were almost always preceded by funding cuts, systemic safety and reliability problems, caused a great deal of upheaval in transportation, and forced countries to renationalize their system.

With that being said, we think that Amtrak's long-term NextGen Plan for the Northeast Corridor provides a template for a public-private partnership that is worth discussing if the partnership does not reduce the public interest or the interests of the Brotherhood of Locomotive Engineers' members and Amtrak's other professional and skilled workers. Further, the BLET believes that Amtrak should continue to be the service provider for the Northeast Corridor and across the United States because they have provided progressive quality service despite many, many obstacles and continue to look for ways to increase train speed, reliability, and service in spite of these obstacles.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

And thank all of our panelists, particularly for your patience while we had to exercise our constitutional responsibility, and that is vote. We are back now to finish the panel and we will turn to questions.

Let me just comment to Mr. Tolman, and welcome, too, on behalf of labor representing the men and women that work for us. We appreciate your role. As I have said repeatedly, and sometimes I wonder if people have a hearing disability, can't comprehend what I am saying, I have always advocated maintaining the benefits, the salary, the wages, the retirement for Amtrak employees in whatever structure we adopt, making certain that is protected. I have also been here and watched the number of personnel from Amtrak go from 29,000 to 19,000, and I say that doesn't portend a bright future for labor, either if you are the head of a union or labor organization or a member.

I have been there fighting for labor when labor had to fight Amtrak and the Federal Government for benefits and wages. In fact, that was a prolonged and difficult experience for the people who work for Amtrak, those union members who were denied benefits and wages. And always used the example of freight rail, which has taken over, which very often gives better salary, better wages, and reaches agreements without that type of imposition.

As far as my record, I have always supported the right of Americans to join a labor union. When we wrote the TSA legislation I insisted that we have that right. I also take the position that no one should be forced to join or compelled to join a union. But I think that is an important right, and I think that labor has done an incredible job over the years. There have been some problems here and there, but in raising the standards, the compensation, the working conditions for the people that get out there and roll up their sleeves and actually make things happen, rather than, like Congress or bureaucrats, just talk about it.

So I want to make that perfectly clear. And as we move forward, I think that, again, there are just unlimited possibilities. If we can have 4 time the numbers of passengers, I know we can increase the employment.

Actually, technically, Amtrak is a private corporation. It does have some quasi-governmental characteristics and certainly substantial Government support. There have been debates about the level of support. But furthermore I have always supported long-distance service, a national system. But we want that to be operated and managed on the very best basis, because the chief underwriters of the subsidies of the private-sector corporation that we have with Amtrak and created in 1971, the main underwriters are the taxpayers of the United States. So that is all I have asked for.

And then I think our goal is to have high-speed rail in the Northeast Corridor. I think that is your goal, Mr. Tolman, correct? You would support that?

Mr. TOLMAN. Positively.

Mr. MICA. OK. But we want to do that, rather than in 30 years, 30 years to my calculation brings us in their chart, which we will put in the record without objection, shows us not getting to really high-speed operations until 2030 to 2040.

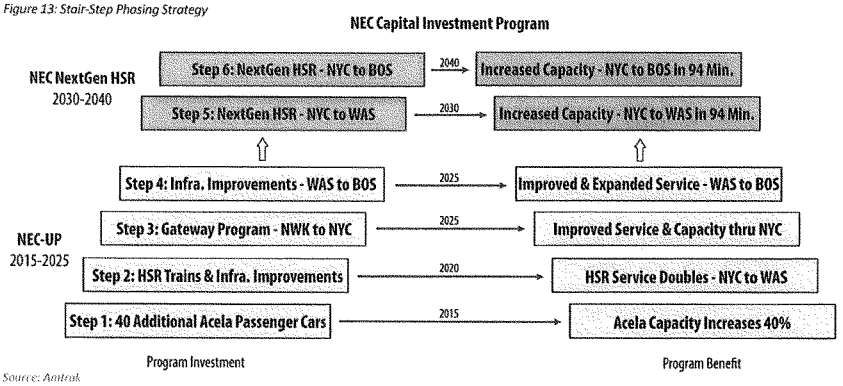
[The information follows:]

3.3. Stair-Step Service Milestones

The forecasted success of Corridor improvements in the NEC Capital Investment Program over the next 30 years were measured by detailed assessments of conditions in five milestone years. The results provide a snapshot of how service, ridership, operating costs and revenues would change over time. The first three milestone years – 2015, 2020 and 2025 – match the service improvements that result from completion of various infrastructure improvements under NEC-UP, including Master Plan projects. The last two milestone years – 2030 and 2040 – are tied to the completion dates for major segments of the high-speed network and the phased start of NextGen HSR services. It is important to note that the planning of NextGen HSR infrastructure will advance alongside near-term milestone years due to detailed environmental review times and planning phases. The following provides a summary of the proposed milestone years, as well as the infrastructure and service improvements, that are a part of the Stair-Step strategy:

- **2015 (Stair-Step 1)** – Acquire 40 additional *Acela Express* passenger cars to increase seating capacity on existing train-sets, and lengthen current high-speed service and inspection (S&I) facilities to accommodate longer train-sets.
- **2020 (Stair-Step 2)** – Acquire new high-speed train-sets to permit doubling of *Acela Express* frequencies between New York and Washington, expand existing high-speed S&I and layover facilities, and complete the necessary infrastructure improvements to support increased capacity.
- **2025 (Stair-Step 3 & 4)** – Increase tunnel/terminal capacity and expand infrastructure between Newark, NJ and an enlarged Moynihan/Penn Station complex as part of the Gateway Program (Section 3.5). Improve trip-times through section improvements, acquire new additional high-speed train-sets to permit tripling of *Acela Express* frequencies in peak periods between New York and Washington, and hourly *Acela Express* service between New York and Boston.
- **2030 (Stair-Step 5)** – Complete NEC NextGen HSR infrastructure (new track, stations and systems) between New York and Washington and begin operation of NextGen services, including Keystone Express and Shoreline Express.
- **2040 (Stair-Step 6)** – Complete NEC NextGen HSR infrastructure (new track, stations and systems) between New York and Boston and begin operation of the full NextGen system.

Figure 13: Stair-Step Phasing Strategy



Source: Amtrak

Mr. MICA. At that juncture I won't be around to see that, given my DNA and longevity as far as male members of my family are concerned. So my goal is to see it while I am alive and not have it happen after I am pushing daisies out of some better setting.

But with those words, questions. Let me go to Hedlund first. I brought a copy of "Conquering Gotham." Has everybody read that on the panel? Have you read that, Boardman?

Mr. BOARDMAN. No.

Mr. MICA. Mr. Boardman has not. Would the staff please take this down, present this copy, and I am going to autograph it for him. If you think——

Mr. BOARDMAN. That is how I get books.

Mr. MICA. "To Joe, from John, with love." But if you think you are having problems, after you read this story of Alexander Cassatt's attempts to bring rail service into Manhattan, the tunnels that he built, Union Station that he built, you think your politics have been tough, wait until you read this story. It is one of the most fascinating volumes I have ever read and it encapsulates all the issues that we are going through. And he was determined to do this. They were originally going to build another bridge up in the northern part of Manhattan to connect. Up to that time about 10, 12 rail lines went in. The major one, I guess, was the Pennsylvania Railroad that he had. And then people had to take a ferry from New Jersey to New York.

And his sister was an accomplished artist, Mary Cassatt, who had a studio in Paris. So during his visits he observed the French tunneling, and so he came back and said, hell, if the French could tunnel, we can, too, and adopted that plan. They had actually failed, and you will read that story, too, in this volume, in trying to build a tunnel previous to that. But he did succeed. It is just an incredible story of vision and just the type of determination to get the job done.

But would one of the staffers deliver that at this point to Mr. Boardman? Thank you.

Mr. BOARDMAN. Thanks for bringing it up.

Mr. MICA. But, again, it does take that vision, and it takes also the determination, and also, to be quite blunt, it takes the cash.

Now, I was excited about President Obama committing to high-speed rail. However, I did express my disappointment in that the money was diverted among 150 projects. Most of the money went to California for a true high-speed rail. The rest is intercity enhanced passenger service and a number of other improvements and grants.

For the FRA representative and administrator, deputy administrator, what is the intent of the Administration for high-speed rail in the future, the next 4 years?

Ms. HEDLUND. Well, I think the President's vision is in his budget, and it includes additional billions of dollars for high-speed rail. And so it is spelled out in his budget. He continues to be quite committed to it, and we hope that the Congress will follow through on that.

Mr. MICA. OK. Well, Mr. Boardman, you started out with, I think, less than $100 million, and some of the money that came into the Northeast Corridor came in sort of, I guess, at the same

time we designated the corridor high-speed, which I commend you on doing, but secondly, with the return of money from at least Florida, Wisconsin and Ohio, and designated.

Mr. Boardman, you are using that in some, I don't mean this to be critical, but it is sort of a band-aid approach, because you don't have the money, but you are trying to pick projects that would make a major impact and improvements in the speed of that corridor.

Where are you on Gateway as far as funding, planning, execution. Where do you see it now and how much to get that done? Maybe you could describe that, too, for the record.

Mr. BOARDMAN. Sure. Gateway is a project that basically goes from just past Newark into Penn Station, New York. It involves two new tunnels, a new Portal Bridge, some new tracks that basically go from Lautenberg Center all the way to the new two tunnels. And it also includes space within Penn Station especially for New Jersey Transit trains. These trains don't have the same ability that the Long Island Rail Road does to stop quickly and store their trains in the Hudson Yards or the West Side Yards.

Mr. MICA. And where are you with that?

Mr. BOARDMAN. We are in a planning stage. Some of the projects could move a little bit quicker than others. We included that in the after-Sandy request, $336 million. What we really need to do is make sure we secure a space under the Hudson Yards, it is about an 800-foot section, at about $190 million, because once that real estate development actually occurs, it would close off the ability to get those two new tunnels in.

The second thing we really need to do, that also was going to be done under ARC, is to raise onto a platform or to a different location that Substation 41 that was flooded during the storm. And also add high-density signal systems in the East River tunnels, not so much to add capacity to the station, but to give us the ability to move trains through those East River tunnels more quickly. We could have restored the same level of service quicker had we been able to do something like that.

Mr. MICA. OK, two things. One, we are trying to complete an environmental study in the corridor. That is scheduled to be done about 2015, is that correct?

Ms. HEDLUND. That is right. It is the Tier 1 for the corridor which will set the framework for the entire corridor. And then you go into Tier 2, and that process looks at individual projects. Some of the delays that occur in the environmental process come when the individual projects are considered, and the advantage of bringing the resource agencies in early, in the beginning of the planning process, is that when we get to Tier 2 we can save, we think, significant time because the alternatives will have been narrowed, the resource agencies will have bought into that, you won't have them coming in the way they sometimes do at the end and say, well, we don't like the way you did the analysis so you have to redo the analysis or you have to look at two or three other alternatives that were dismissed early on, but they weren't at the table when that analysis was done.

So we are hoping to, as I said, complete the Tier 1 by 2015. By the way, we do need additional funding. The first phase of that, we

had $9 million for, that will be completed in February. But the next two phases will cost an additional approximately $30 million and we need additional funding to complete that.

Mr. MICA. Has that been requested in the budget?

Ms. HEDLUND. I believe so, but I will get back to you on that.

Mr. MICA. Let us know on that. Also, anything we can do to speed that process up. The other thing is, does that include the entire corridor, all 437, or is it just parts of it?

Ms. HEDLUND. It is the entire corridor.

Mr. MICA. Is it? I was wondering again if any of this could be divided up and expedited, and that is something else I would like to look at, discuss with you all. I will have a little bit more time to focus specifically on the Northeast Corridor after the beginning of the year and I would like to make that a priority, moving it forward. But you will need the money if you are going to complete the plan. Then when we get that, we will have alternatives analysis?

Ms. HEDLUND. Yes.

Mr. MICA. OK. At that point and juncture, now, we had Secretary LaHood here and he was talking about overall high-speed rail, and he said, we will also need the money. He said he would be open to opening these opportunities to private-sector competition. Do you see any problem with that?

Ms. HEDLUND. No. As he said last week, and I think he has been quite consistent on this, we welcome private-sector investment to be able to leverage the limited public funds that are available. We are going to want to make sure that where that money comes in makes the most amount of sense, is the most cost-effective way to do it, that the contracts are put together in a way that protect the public interest.

Mr. MICA. I would concur with all of those, particularly our job is protecting the public interest. And also I think it is important that we maintain the ownership of that infrastructure that we are contributing to build along the way. But I think, one, you are never going to get the Congress to give you $151 billion, even over a period of 30 years, but I think if we could attract private capital, and that is where our managing director of Morgan Stanley maybe could shed some light.

Right now we take in about a billion dollars. We have about 11 million or 12 million passengers on that run. If that was 40 million passengers, of course, there is costs, not just adding passengers, but capacity and the infrastructure to support that. How much money do you think could be raised? Any thumbnail idea of what that kind of activity would support, that revenue?

We would probably have about $4 billion coming in from passenger revenue at that stage and it could be amortized over a number of years. Maybe you could tell us what that might foretell or forecast for investment. I know you said there have to be conditions, Government guarantee and backup, which could be done. But with that kind of revenue, what kind of investment would it support?

Mr. OFFUTT. Thank you, Mr. Chairman. It is hard to put a precise number on this, of course, but what I would say is we are in an environment where there is more and more capital being raised to invest in infrastructure projects globally than there are actual

opportunities to invest that. And I say that because there are a lot of projects that really are not profitable and are very difficult to make the math work from a business standpoint. The Northeast Corridor, I believe, is definitely an exception to that. It is profitable currently and I think with additional investment could be a lot more profitable.

Mr. MICA. Again, if we had $4 billion in revenue versus $1 billion, what would that support? Any idea? I mean, you take that to the market.

Mr. OFFUTT. Right.

Mr. MICA. There are a lot of expenses involved, but there is still going to be a nice net return. Would it support $20, $30, $40 billion in investment? I don't know.

Mr. OFFUTT. It could. It would definitely come in two forms—private debt capital and private equity capital. I think with steady cash flow, people would get comfortable with the cash flow that is available for debt service. Let's assume after all the costs, you get to something in excess of $2 billion, you could argue that there is at least—well, basically it is hard to give an exact number, but clearly multiples of that, that would come from the markets. It is hard to answer, there is no other project like this because it is so huge relative to what people have been investing in the past.

Mr. MICA. But again, there would be interest, there is capital now seeking projects of this nature. One, of course, of this magnitude might have a great deal of interest. My main thing is to get our alternatives, get this environmental study done, then look at the possibility and take proposals from the private sector to build this out. Of course, whoever the operator is or working with Amtrak has to also honor the labor agreements, right?

Mr. OFFUTT. Right.

Mr. MICA. Well, I think, you know, I am looking at it, trying to look at it from a positive standpoint of what we could do. There are so many benefits, as I said. The air traffic congestion, even with Next Generation air traffic control, which won't be developed in the quickest, I am trying to speed that up, too, with some things we are doing, maybe 15 years, you can only fly so many planes so closely together. They can only land so many planes at LaGuardia, JFK and Newark. Been there and watched them land and can see that we are maximizing. Even with the Stewart addition of the fourth airport, you still will run out of air space. But taking this traffic to the corridor and then the connections that we have.

A question was raised by Ms. Brown about impeding some of the service along the way. Actually, if it is properly done and there is separation we can enhance local passenger service, commuter service, and we can also increase freight traffic by, again, separation within the corridor with the right plan.

So I look forward to working with you, Mr. Boardman, with the deputy administrator and others, and thank you for participating today.

We are going to leave the record open until the 31st of December. How is that for a date, Ms. Norton? Without objection so ordered. We may have additional questions we will submit to you.

May I yield to Ms. Norton now.

Ms. NORTON. That is a fine date, Mr. Chairman. We will either be over the cliff or not by that time.

I very much appreciate this hearing. I want to say that I have been an aficionado of public-private projects in my own Subcommittee on Economic Development where it is better known, better understood and extensively used, and therefore I am very interested in its conceivable application to a railroad. If we did more public-private partnerships in construction and real estate in my other committee we would have saved billions of dollars. Now I want to see whether or not that is the same if we are talking about railroads.

I noticed in Mr. Offutt's testimony, I am looking at page 9, that your examples where you were recently advised, as you say, on transactions tend to be examples like parking systems, concessions, parking concessions airports and the like. Have you ever advised on any project as large or as extensive as the Northeast Corridor?

Mr. OFFUTT. I would say there are a lot of projects that I work on that are very similar. In terms of airports, there is lots of complexity that is very unique to airports. But I would say this is a very unique project relative to anything that I have seen in the U.S. or around the globe in terms of the scope of what this project could be, especially as it relates to cost. It is not just me speaking—anyone in the financial community would say that an equity check from a large institutional investor of a billion dollars is considered large, and this would be something which could support significantly more than that if structured appropriately.

Ms. NORTON. Now, you testified that capital is available for investment in such a project like the Northeast Corridor. Now, I would like you to describe what you think is the reason for our recent experience where the Department of Transportation put out requests for proposals, did get a few, but none for the Northeast Corridor. Why do you think that the DOT got none for the Northeast Corridor, since that is the only really profitable one?

Mr. OFFUTT. I would start by looking at the example of the Florida high-speed rail project which had been considered at one point in time, and there was a list of groups that had formed that expressed interest in that and they were some of the best operators around the world for high-speed rail, some of the best construction companies, and some very well known equity sources as well. So I think there is a lot of interest in general.

But what the private sector has seen multiple times before are projects that are still very much in the conceptual stage and are very concerned about spending significant dollars today until there is some more clarity on the projects, because it does cost a lot of money to have consultants and others analyze it. And that is why I mentioned the concept of political will in my testimony. On both sides of the House there is clearly support for projects like this, but there is a lot of details that need to be dealt with in terms of what the actual economics may be, and then once those are determined, then I think there would be a lot of interest from the private sector.

Ms. NORTON. Now, you say, and now I am looking at page 6 of your testimony, that equity contribution from private investor, that tends to be approximately 10 to 15 percent of the total project cost

given its cost of capital. Does that sound like it would be sufficient for a bidder who wanted to be the private partner in the Northeast Corridor?

Mr. OFFUTT. I think that is a question for a lot of other people that would be involved in the project, if that is enough. If you think about the total needs for capital, how much would you need from the private sector to close that gap. But when you look at precedent, public-private partnership transactions in the U.S.—still a more limited subset than if you look over in Australia, Canada and the U.K.—only about 10 to 15 percent of the money comes from the private sector, in terms of equity that is, and it really is because the cost of capital for that equity is definitely, based on precedent deals, north of 10 percent cost of capital.

So usually for projects such as this they would start with any potential grant money available first, then any potential subsidized or low-cost loans, such as the RRIF program, and then eventually figure out how much more additional capital would be needed and could the private sector be able to come up with that amount. And, again, given the size of the total project, I can't say if there is enough capital to do that, but in segments, and given the general interest in rail, I believe that if structured appropriately there should be a way to do this.

Ms. NORTON. But you do say 10 to 15 percent of the total project cost would come from private capital. Now, where would the rest come from?

Mr. OFFUTT. That is right. So if you look at a lot of the projects, for example, some of the toll road projects that were built in Florida, a lot of it comes from either Federal or State funds. It is not to say these are grants, but a lot of times they are programs like TIFIA, which are low-cost loans that would be supported by the project that represent roughly 50 percent of the total project cost.

Ms. NORTON. It might be low-cost loans guaranteed by the Government?

Mr. OFFUTT. That is where a large percentage have come from historically.

Mr. DENHAM. [presiding.] Mr. Offutt, we are going to move on. We will come back. We are going to have several rounds here.

Along that same line of questioning, when you are looking at a project, what percentage of the project do you normally look at as being needed to be funded before private capital comes in and what type of return are you looking for?

Mr. OFFUTT. The clients on the private side that I spend time with are going to look at a return that is consistent with the risk of a project. If there is an availability payment as a floor, as I mentioned in my testimony, there is at least some comfort that no matter what the volume of traffic is, there is some base level of cash flow. That drives the return expectation down to somewhere in the low double digits, so maybe 11 or 12 percent. If you are talking about a project where there is a lot more volatility, then the project for a greenfield new construction project could be in the 17-, 18- to 20-percent range.

So I think the reality is, is that these investors who represent pension fund money or endowment money are looking to deploy that capital on a global basis and will find projects that meet those

return hurdles. So that is why usually the percentage is a much smaller percentage of the total cost.

I think the first part of your question as it relates to figuring out when that money is available, there is definitely money that has been raised. But I think when it comes down to thinking about any given project, if the total cost for a theoretical project was $1 billion, there would be very much a calculation of given the project's future cash flows and given what other sources of capital could be available from both Federal, State, local funds, forms of debt capital that could be funded on a project basis, on a taxable basis or even a tax-exempt bases, then how much would be left over for this private equity capital. And that usually happens after significant studies have happened in terms of either ridership, environmental and so on, and that there is enough certainty on what the timeline of that project might be as well.

Mr. DENHAM. So at what point, and also what type of information do you need before you present this to your investors on investing in the Northeast Corridor?

Mr. OFFUTT. I believe there are a couple of processes that are going on right now in terms of a ridership study. That would be incredibly helpful. There is additional work, I believe, in terms of analyzing what, if any, kind of environmental work would be needed. Things that would enable the development of a financial set of projections based on certain reputable advisers or consultants that would be backing those numbers.

I think once there is a real set of projections, both on the capital side and the operations side, then I think it becomes a very tangible analysis that the private sector can get involved in, at least on the equity investment side.

Mr. DENHAM. And what type of information are you looking for coming from—or what type of commitment are you looking for from Congress on the overall project? Is there a percentage that you are looking for? If it is a $100 billion project, are you looking for 80 percent of it to be initially funded or are you normally willing to jump in halfway through the process?

Mr. OFFUTT. Sure. There definitely is not a specific percentage that is required. It truly comes down to math. It is math in terms of making sure that the return is reached. There is a limit in terms of how much equity capital would be invested in any one given project.

So while I mentioned in my testimony and there has been hundreds of billions of dollars that has been raised, that is true. Clearly a large chunk of it has been invested. But any different fund adviser is going to be limited by how much they are going to be able to put in one given project. So, again, the numbers we have talked about are unprecedented relative to deals that have actually happened.

Mr. DENHAM. I am just curious on what point you actually get the information and take that back to your investors and at what point you are able to not only present that to them, but give a commitment overall to the project. This is a $151 billion project that has a little over $3 billion already allocated to it. Do you get involved in a phase or do you need to see a certain amount of budget

allocated before you are able to put your financial picture together for your investors?

Mr. OFFUTT. I think there is definitely the ability, again, for the broader private sector, not only the investors, but clearly the operators and construction companies to be getting involved in early stages to try to give their thoughts and try to structure things in a way that they think will ultimately get to the right conclusion. And given the size and the scope of this project, I would think you clearly would have different phases for that to happen.

They will spend most of their time and effort when there is a better sense of when that first phase will actually start or get close to the construction portion, and 6 months leading up to that, all the funding will have to come together, and all the private and public funds will be available.

Mr. DENHAM. So in a huge project like this, it does not make your investors nervous to get involved in a phase one or a phase two or an early part of the process, even though the overall budget is not put together?

Mr. OFFUTT. I think it is just a matter of managing their cost and time. A lot of people would believe in this project in the long run and would be happy to dedicate a fair amount to try to make the process move forward. I think it is a matter of spending millions of dollars trying to analyze the project and come up with constructs that might make the procurement of it work, but they will also be concerned about whether that money is going to be able to recover eventually if there is a process.

This is a long way of saying that they are very mindful of how much they do spend upfront, but I do find that they would probably be very much willing to engage at some point early on and then hope that they have kind of helped give some guidance that could actually turn into a process they could be involved in later.

Mr. DENHAM. So you would write a clause into any contract that said if the project significantly changes, then there is some type of payment back to your investors?

Mr. OFFUTT. That is one way of doing it. There are people in the private side that are willing to have funds at risk that they would not expect to be recovered at all. There have been discussions about ways in which you can engage the private sector and give them some comfort that if things do deviate dramatically, that there could be some recovery, that would be helpful.

Mr. DENHAM. And how much does that compensation change depending on the risk that is allocated, or how much does the risk change depending on how early the project is?

Mr. OFFUTT. Obviously, the earlier and less defined a project is, the riskier it is. There aren't any specific, at least in terms of the equity capital side, specific funds dedicated just to kind of passenger rail projects. So I think it would be trying to figure out which groups would be the most interested in taking that risk. And the groups that I have heard of would be a lot of the international operators. Amtrak has teamed up before with SNCF, the French operators. I think they are very much believers in this project and other projects in the U.S. I believe they have been willing to give guidance and not expect any kind of compensation in return.

Mr. DENHAM. Thank you. And one final question. This is a $151 billion project with $3.3 billion allocated from the Federal Government. Is there a local bond on this? State bond? Any type of bond? No bond.

OK. So comparing that to California, where you have a now $68 billion project with $3.6 billion coming from the Federal Government, a $9.5 billion bond, you have a bigger percentage already allocated between State and Federal dollars for the California high-speed rail, which is a better risk? Which would be a better investment for Morgan Stanley?

Mr. OFFUTT. I think the investors would definitely view that the Northeast Corridor, given at least the view that you are going to be able to go from Boston to Washington, DC, even if it is, again, not all done in one segment initially. It is already profitable and it clearly has room to be significantly more profitable.

California could work when you are able to get from the two major areas of density in San Francisco to L.A. If you are only talking about the Central Valley, I think that becomes a problem. Unless there is a guaranteed availability payment that I had mentioned before, no one is going to be willing to take that traffic risk because there is no history of large traffic between Bakersfield and Fresno.

Mr. DENHAM. But at some point you are still going to connect by the California plan San Francisco to L.A. If you have a $68 billion project and you have a much larger investment between State and Federal dollars, why wouldn't that be less risk, unless you really have a huge question about the ridership numbers between the two corridors?

Mr. OFFUTT. Yes, it also goes to phases. I think it is hard to say which is better. If both of them were built tomorrow and they were done, I think they are both very interesting and potentially very viable projects.

I think it is just difficult to be able to convince the private sector that the timeline is going to be within a reasonable amount of time. Most of these funds have been raised to try to be invested over the next 10 years, and a project such as the California one clearly has a timeline that could be well beyond that.

Mr. DENHAM. Thank you.

Mr. Hanna?

Mr. HANNA. Nothing.

Mr. DENHAM. Ms. Norton?

Ms. NORTON. I would like to—I am fascinated by the public-private notion and how real it is.

Did you say you would expect an 11- to 12-percent return on investment?

Mr. OFFUTT. When you think about the private capital, there is definitely debt capital and equity capital. On the equity side, I would say that the base rate, so the lowest possible rate, that equity would be willing to receive would be a return of 10 to 11 percent. And that would be under a structure where most, if not all, of their key risks were mitigated, such as the traffic risk for a portion or all of the system.

That just gives you a sense of how much more expensive that is relative to the RRIF program, which is based on treasuries.

Ms. NORTON. For the record, the $3.3 billion that was spoken of earlier, that is really Recovery Act money and some appropriation money. It is going into, for lack of a better word—Mr. Boardman could perhaps elaborate—I would call basic upkeep, not even upgrade of the kind that would be necessary to prepare for high-speed rail.

Is that true, Mr. Boardman? Isn't this just getting Amtrak so that those trains can run safely and on time, as they say?

Mr. BOARDMAN. Ms. Norton, I am not entirely familiar with the $3.3 billion number; what it consists of. In terms of the Recovery Act piece, we talked about $336 million. And in terms of investment for high-speed, the only thing I really know about is the $450 million that came out of the Florida project that we are now using on the corridor in New Jersey.

Ms. NORTON. So no investment that we could call high-speed investment yet.

I am asking this because I need clarification from Mr. Offutt on infrastructure. Does your view of the private investment assume that the Government has in place and has already funded all the needed infrastructure? Or is the private investor part of the infrastructure of the high-speed rail?

Mr. OFFUTT. It could definitely be structured either way. There are examples when the Florida high-speed rail project was considered. One hundred percent of the capital cost could have been funded through Government funds and then the private sector would be taking the responsibility of all the operating costs going forward. That was one concept that had been discussed. I think it was a really——

Ms. NORTON. Moving right along.

Mr. OFFUTT. Right.

I don't know if the Northeast Corridor would be that way or not. I think there clearly are examples where a large percentage of the capital costs would also be covered by the private sector. I think that in this case, just given the magnitude, it is unprecedented. So it is not to say it can't be done; it is just——

Ms. NORTON. Well, I can understand, Mr. Offutt, and some of the questions we are asking are almost impossible. I think one of the reasons that perhaps if anyone is going to do anything, they ought to do it on the section of the Northeast Corridor and see what you got.

But we do have some rough analogies that trouble me when I try to apply them to a railroad that has to go and can't stop and is depended upon, and that is the FAA. You know, I saw the FAA bill held up here year after year after year. Neither party seemed to be able to move it. It finally got to the point where in the airports around the country they had to stop all of the work on those airports because Congress had failed to pass its bill, its public part of the bill.

Could I ask you whether, you know, the public-private partnership of the kind you are talking about is even suited for the way we fund projects? We fund projects on an annual basis. That means that the Federal—on an annual appropriation basis. So that means that unless there was also negotiated a way to keep whatever Government funds were part of this deal coming, wouldn't the private-

public partnership be in the same position as the FAA was? Some years where there is nothing, because there is no agreement in Congress—this is a democracy, and the way in which it works, particularly when it comes to money, is sometimes Congress does and sometimes Congress doesn't.

And I am trying to apply that to a railroad which depends through the annual appropriations on Congress coming up with its share of the operating funds and then having trouble.

Mr. OFFUTT. I completely agree with that point. For much smaller scale projects—for example, a courthouse was built in Long Beach, California. All of the funds are also subject to appropriation that are coming from the Government each year. But given the scale of that, being so much smaller, the investor felt comfortable that money will come.

I think when you are talking about the magnitude here and the costs associated with significant delays, it raises it to a whole other level. That is right.

Ms. NORTON. It seems to me that the infrastructure of the Government would have to also be changed to account for any such new and important inroad into a public-private partnership for railroads.

Thank you very much.

Mr. DENHAM. Thank you.

Ms. Hedlund, you said in your testimony that you have the right pieces and the right people in place. Do you currently have any private investment in the project?

Ms. HEDLUND. Is there currently any private investment in the Northeast Corridor?

Mr. DENHAM. Correct.

Ms. HEDLUND. Yes, there is, and it is in the stations. As Ms. Norton is familiar with, the redevelopment of Union Station involves a significant public-private partnership with a private real estate developer. And the same is true with the proposed redevelopment of Moynihan Station in New York.

So, yes, with respect to stations, there is a great opportunity to leverage private investment for the development of those stations to pay for the transportation function of those stations.

Mr. DENHAM. And how about as far as phase one of the rail or the environmental process?

Ms. HEDLUND. What we will be doing in phase one is to evaluate what potential private investment might be. That is definitely part of the scope of work of phase one, so we will be studying that.

Mr. DENHAM. And how about phase two? What type of private investment are you looking for in phase two?

Ms. HEDLUND. Well, we will find out in phase one what we—you know, that is what phase one is to find out, what the potential is for private investment for projects going forward.

Mr. DENHAM. Unlike in California, the Northeast Corridor service provides, my numbers here show, 75 percent of the rail-air market. What is the proportion of passenger rail transport in the air-rail market for California?

Ms. HEDLUND. I don't have those numbers, but I know there has been a study of what the impact of the high-speed rail project would be on the congestion between San Francisco and Los Ange-

les, how much of that traffic is expected to shift to rail. I don't have those numbers with me, but I would be happy to get those from the Authority and make them available to you in the record.

Mr. DENHAM. And you also would have, or the Authority, I assume, would also have a 30-year projection?

Ms. HEDLUND. I don't know exactly what the nature of the projections are, but we will get the information that they have and make it available to you.

Mr. DENHAM. Thank you. And you currently have a 30-year projection for the Northeast Corridor?

Ms. HEDLUND. For the air-rail split?

Mr. DENHAM. Yeah.

Ms. HEDLUND. That I do not know. I would defer to Mr. Boardman on this.

The introduction of the Acela service itself in 2000, I think the air-rail split was something like, you know, 30–70 or 40–60, and then it flipped; it is now 75–25. You know, the overwhelming number of people going between Washington, DC, and New York prefer to take the train. And it is not because that it is always cheaper because the Acela service is not. It is because of the time savings and the convenience.

Mr. DENHAM. Mr. Boardman, for the Northeast Corridor, 80 percent of the population lives within 25 miles of the Northeast Corridor, making the rail very, very accessible. How would you compare that with California?

Mr. BOARDMAN. It depends on the part of California. One of the things I can answer, Congressman, is that the air-rail service between San Diego and L.A. is entirely rail because of how close they are to each other and the way that it operates. But when you get to something like the L.A. to San Francisco, you really only have the Coast Starlight. And so there isn't a sufficient amount of data that would really tell you what would really happen here.

So, from that regard, the old train—and I can't remember right now what they called it; I guess it was the Coast Daylight—was the primary way they moved, up until 50 years ago or so, between San Francisco and L.A. And it was probably the most profitable of the private railroad operations back years ago in regard to that.

In terms of the Northeast Corridor, we have a projection of what the revenues would be 30 years down the line. There would be probably very little air service in terms of Boston to New York and New York to Washington, because you would be at an hour and a half between Boston and New York and then another hour and a half or an hour and 34 minutes between New York and Washington. So you would really wind up with very little air service.

And if you remember back in 2008, and you may not, there was a great deal of discussion by the former aviation executives that that is something we really should do in the Northeast, so that those airports today could really be used for longer distance travel and that we use the mode that made the most sense, which would be rail, in those corridors. That would garner us, our expectation is, pretty close to $5 billion in revenue a year, with about $1 billion, plus or minus, coming out of that in terms of profit.

Mr. DENHAM. So you cannot draw a direct correlation between California's high-speed rail and Northeast Corridor? I mean, they are just two completely different——

Mr. BOARDMAN. Well, not here. I mean—excuse me. I don't know if your question is done.

I can't draw that conclusion here because you don't have the right data sets. We may have some folks that have an analysis, and I can look at that and get you an answer back.

Mr. DENHAM. Perfect. Thank you.

Mr. Hanna?

Mr. HANNA. Thank you, Chairman.

Hi, Ms. McDonald. How are you, Commissioner? Nice to have you here.

On the Advisory Commission, you are in the process of developing several other reports analyzing the pressure that would be taken off, projected pressure, off of airlines, off of roads and what that means to the Northeast Corridor.

Will that report be done? And what will we be able to get out of it to tell us about the savings that might be incurred just by virtue of the pressure taken off of those other two or three modes of transportation?

Ms. MCDONALD. It is nice to see you, Congressman.

Mr. HANNA. Thank you.

Ms. MCDONALD. We are undertaking right now several different initiatives.

Number one, what you will get in early January is, segment by segment up the corridor, what the various infrastructure investment requirements are. And it is important to note that, while it is done in a segment-by-segment basis, the Commission views the corridor as geographically silent. We don't look at the borders between States. We really look at the investments that are needed for the corridor overall. So you will get that in January.

Number two, in coordination with the I–95 Corridor Coalition, we are doing a highway intercept study. And what we are doing there is looking at, in cooperation and collaboration with the Northeast FUTURE study, what types of people who currently use automobiles would then transfer to the train intercity passenger rail. And that is going to be completed sometime in the spring, and you will get various updates on that.

And, lastly, our primary initiative that we are undertaking right now is the cost allocation methodology, which is part of the PRIIA legislation that Congress enacted which created the Commission, to see what types of cost-sharing allocations need to be done between the States, Amtrak, and the Federal Government.

Mr. HANNA. Will you be projecting the cost savings of any anticipated improvements in those facilities in the absence of the Northeast Corridor build-out?

Ms. MCDONALD. You know, I think what we have all been doing as standalone States and as part of the corridor is looking at what those cost savings are. For example, in New York, we just instituted a major change in how we do business on the service between Poughkeepsie and Schenectady, New York, and it was a wonderful collaboration with Amtrak, CSX, and the State as to how those

costs are allocated. And those are the things that we will continue to be doing.

Mr. HANNA. Uh-huh. So that won't necessarily be broken out in terms of potential Federal savings or Federal offsets, investments?

Ms. MCDONALD. You know, I think the challenge that we are facing is, first and foremost, we are talking $150 billion here if something like the Amtrak plan is the agreed upon path forward, and we see significant capital investments that need to be made. So one of the primary questions that needs to be answered is, what are the funding sources to make those capital investments? And what we are evaluating is, you know, there will be public dollars, as we have been discussing here this morning. What is the capacity and the ability and the risk associated with private-sector investment, and how does that all come to pass?

Mr. HANNA. Uh-huh.

Ms. MCDONALD. And then, as we do that, we will look at, along with Amtrak and the Federal Railroad Administration, where the potential savings are on the operating side once you make those capital investments.

Mr. HANNA. Uh-huh. I understand. I am just thinking of, in total, there could be a great many savings that this body might want to see and understand. It is going to be a hard sell.

Ms. MCDONALD. You know, it is going to be a hard sell. In my 20 years working with both commuter railroads and in transportation, one of the reasons we are at the point we are right now, not to anybody's fault, but there hasn't been the type of investment made that needs to be made.

We have all pointed to Superstorm Sandy, and fortunately the tunnel connecting New Jersey and New York, even though it flooded, it did not breach. And that is huge. And a lot of times, people talk about the tunnel and the Gateway project as a New York-to-New Jersey project. It is not; it is a corridor project. If that tunnel had collapsed, just think of what would have happened in the Northeast—not the Northeast Corridor, but in the Northeast. It would have paralyzed the region and the country.

And we need those investments in additional tunnels in Baltimore, in New York, improvements on the bridges in Connecticut, to make this system, to attract the ridership that we need to make those cost savings and that calculation work.

Mr. HANNA. Uh-huh. I guess what I am referring to, also, is the fact that the $4 billion in revenue that is projected, that is just one number, one benefit, one source. It is certainly far from what we should be talking about, and obviously everybody knows that. But the more you can give us, the more you can parse this, the different angles you might take, I am sure it is all going to be helpful.

Ms. MCDONALD. And we will absolutely do that with Amtrak and our partners at U.S. DOT.

Mr. HANNA. Thank you.

My time is up.

Mr. DENHAM. Any further questions from any members of the committee?

Seeing none, I would like to thank each of our witnesses for your testimony today.

I ask unanimous consent that the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that have been submitted to them in writing, and unanimous consent that the record remain open for 15 days for additional comments and information submitted by Members or witnesses to be included in the record of today's hearing.

Without objection, so ordered.

I would like to thank our witnesses again for your testimony today and appreciate your working with our legislative calendar today.

If no Members have anything to add, the committee stands adjourned.

[Whereupon, at 12:54 p.m., the committee was adjourned.]

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Statement for the Record
Congresswoman Eddie Bernice Johnson
House Committee on Transportation & Infrastructure
Thursday, December 13, 2012
Hearing on
Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation

The Northeast Corridor is the transportation artery through some of the most populous metro regions in the entire U.S. It is essential for commerce that we are able to move goods and people up and down the eastern seaboard efficiently, but with increased congestion both on our roads and in our skies, our current system is reaching its capacity. Not only are we currently reaching capacity, but it is estimated that an additional 15 million residents will live in the already congested Northeast Corridor by 2050, a 30% increase.

It is for this very reason that our continued investment in passenger rail is so essential. The recent Thanksgiving holiday set a record for Amtrak ridership, with 737,537 passengers. The record ridership brought in $56.1 million to Amtrak, an 8.4 percent increase over 2011. The Northeast Corridor is profitable, and serves as a model for what we can accomplish with smart investments in infrastructure in other parts of the country.

What is unclear to me is why there has been a constant drum beat to privatize Amtrak, and to starve it of its much-need funding. As everyone on this committee knows, funding for infrastructure, whether it is for rail, transit, or surface transportation, has always come from the public sector, and only after we have made significant investments does it become attractive to the private sector. No one on this committee would suggest that it would be a good idea to privatize our roads and bridges. Yet we come back to this issue again and again with rail.

I would suggest that a more worthwhile endeavor for this committee would be to check the partisan politics at the door, and examine how we can improve and expand all modes of transportation that the American people depend upon.

I thank the Chair and Ranking Member for calling this hearing, and look forward to the witnesses' testimony.

Statement of the
Honorable Karen Hedlund
Deputy Administrator
Federal Railroad Administration – US DOT
Before the
Committee on Transportation and Infrastructure
United States House of Representatives

"Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation."

December 13, 2012

Chairman Mica, Ranking Member Rahall and members of the Committee: It is my honor to represent President Obama and Secretary of Transportation Ray LaHood before you today to discuss planning and development activities on the Northeast Corridor. In this testimony, I will summarize the Northeast Corridor's role from a national perspective, describe recent achievements on the Corridor, and update the Committee on the status of the Northeast Corridor FUTURE program.

The Northeast Corridor – A Unique American Asset

On July 4, 1828, the "First Stone" of the Baltimore & Ohio (B&O) Railroad was laid in Baltimore, Maryland. During the ceremony, Charles Carroll (a signatory to the Declaration of Independence) stated,

> *This Stone is deposited in commemoration of the commencement of the Baltimore and Ohio Railroad. A work of deep and vital interest to the American people. Its accomplishment will confer the most important benefits upon this nation, by facilitating its commerce, diffusing and extending its social intercourse, and perpetuating the happy Union of these, Confederated States.*

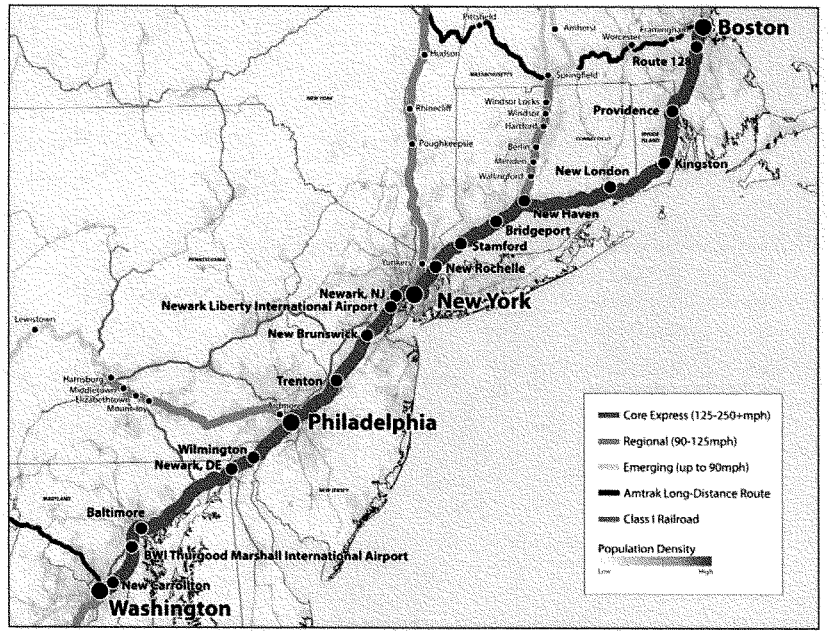
The B&O would go on to become one of the most vital transportation assets in the Nation. More than 184 years later, that infrastructure continues to play an important role in moving people and goods throughout the Northeast, accruing immeasurable benefits for the region (and the country) thanks to the foresight and commitment shown by past generations of Americans.

The Northeast Corridor (NEC) has a similarly extensive history, one which spans nearly 175 years. Long before Logan, John F. Kennedy, or Reagan National airports were built, and long before Interstate 95 came into being, the Northeast Corridor was the key artery for moving Americans among the major metropolitan areas of the Northeast. The first segments were constructed in the 1830s, and most of the significant sections were in place by the 1870s. The major bridges and tunnels built in the early 20th Century (and still in use) unified these segments into the Corridor we know today.

The NEC is a not a single, simple rail line – rather, it is complex rail system in a complex ecosystem that is shared by interlocking networks of intercity, commuter and freight operations.

It is one of the most heavily traveled rail corridors in the world, with more than 260 million annual passengers and over 250 businesses shipping freight over the line. The NEC serves an area that includes four of the ten most populous U.S. metropolitan areas, and that produces twenty percent of our gross domestic product while occupying less than two percent of the country's land mass.

Northeast Corridor – By the Numbers



Length:	457 miles
States Served:	8 + Washington, D.C.
Daily Passenger Trains:	2,200+ (spine) | 225+ (connecting corridors)
Daily Freight Trains:	50+ (operated by 7 freight rail companies)
Annual Amtrak Passengers:	11.4M (spine) | 3.6M (connecting corridors)
Annual Commuter Passengers:	247M (operated by 9 commuter railroads)
Market Share Rail/Air:	75%/25% (New York-Washington, DC)

Today, the Northeast region faces a series of challenges that must be addressed if the region is to maintain its global economic competitiveness and quality-of-life:

- **Population growth:** By 2040, an additional 6 million people are projected to live in the areas directly served by the NEC.

- **Mobility:** The Northeast is home to many of the United States' most-frequently-delayed airports, including four of the top five in 2011: Newark Liberty, LaGuardia and John F. Kennedy (New York), and Boston Logan. Highways in the Northeast are also highly congested; Interstate 95, which largely parallels the NEC, is routinely listed among the busiest and most congested roadways in the Nation.

- **Air quality:** Nearly 75% of residents in the region served by the NEC live in a nonattainment area for ozone pollutant levels.

The economic vitality of the Northeast depends on our ability to meet these challenges. Substantial investments in the region's airports, transit systems, ports, and roadways are all part of the answer, but the Administration firmly believes that improving the Northeast Corridor should be central to the region's long-term mobility strategy. The NEC is currently capacity-constrained, however, and the region lacks an integrated, consensus-based plan for coordinated Federal and State rail investments. The Northeast Corridor FUTURE program, discussed further below, is intended to fill that gap.

Accomplishments in Recent Years

Thanks to the efforts of this Committee and other stakeholders, the recent level of Federal commitment to the Northeast Corridor far surpasses that of any previous Administration. In the 33 years from the Ford Administration through 2009, a total of $8 billion in inflation-adjusted Federal funds were invested in the NEC. In the 3 years since 2009, more than $3.3 billion in Federal rail dollars have been invested in the Corridor.

Approximate Federal Funding in the Northeast Corridor, FY 2009-present

Program	Appx. Federal Funding ($M)
High-Speed Intercity Passenger Rail Program (HSIPR)	$984
Railroad Rehabilitation and Improvement Financing (RRIF)	$563
Transportation Investments Generating Economic Recovery (TIGER)	$106
Recovery Act funding provided to Amtrak	$683
Annual Amtrak Capital Account Funding	$987
TOTAL	**$3,323**

These Federal investments, combined with investments being made by Amtrak, States, and other entities, are resulting in tangible benefits up and down the Northeast Corridor.

- **HSIPR grants are improving speed, passenger comfort, and reliability – for all users**: Major capital projects are adding or upgrading track, modernizing power systems, and expanding constrained stations. Upon completion of these projects, rail passengers will benefit from increased speeds between Philadelphia and New York, significantly reduced delays at several bottlenecks – such as Harold Interlocking in Queens and locations in Delaware and Rhode Island – and enhanced stations in Boston, Washington, D.C., and at Baltimore/Washington International Airport. Major engineering projects are also underway, preparing for the replacement of some of the Corridor's oldest and most complex components, including Portal Bridge in New Jersey, the Susquehanna Bridge in northern Maryland, and the B&P Tunnel in Baltimore.

- **A new rail gateway to New York City is under development:** Pennsylvania Station (Penn Station) is America's busiest passenger transportation facility, with a weekday pedestrian volume of 640,000, including Amtrak, Long Island Rail Road, New Jersey Transit, and New York City Subway passengers. The existing facility suffers from design and operational challenges and congested passenger flows. The Moynihan Station project will expand Penn Station into the historic Farley Post Office Building, creating a new landmark in Midtown Manhattan. Phase 1 is underway through Federal, State, and Amtrak funding, expanding concourses and adding new ingress and egress points to improve access and increase passenger capacity. Construction on Phase 1 began in September 2012 and is expected to be complete by September 2016.

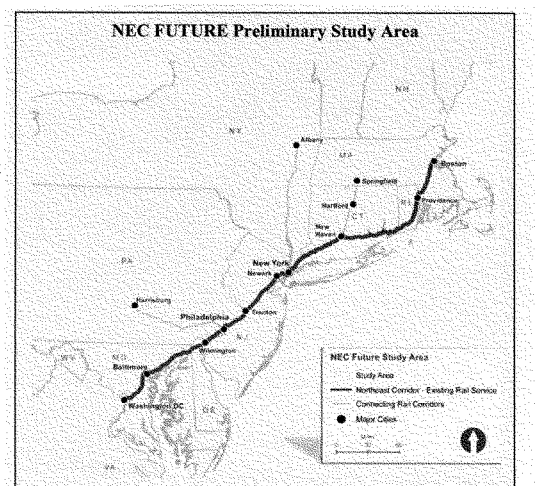
- **A century-old bridge has been replaced in Connecticut:** On September 7, Amtrak opened the new Niantic River Bridge, which replaced a 105-year-old moveable bridge in East Lyme, Connecticut. Benefits of the project have included higher speeds, increased reliability, and reduced delays. The $140 million, three-year project was funded in part by Amtrak's annual capital grants and funding provided through the Recovery Act.

- **New electric locomotives are being procured:** Through a loan provided by FRA under the Railroad Rehabilitation and Improvement Financing program, Amtrak is purchasing 70 new electric locomotives, plus maintenance parts and facility upgrades, to replace existing locomotives, increase reliability, improve service, and provide for future capacity expansion on the NEC and connecting corridors. The locomotives are currently being manufactured at plants in California, Ohio, and Georgia, and the first deliveries are expected in Spring of 2013.

- **Northeast Regional service to Norfolk, Virginia opened yesterday:** New service extending NEC trains south through Richmond to Petersburg and Norfolk, Virginia began on December 12. This new service is a result of a partnership among Amtrak, the Commonwealth of Virginia, CSX, Norfolk Southern, and the City of Norfolk.

Despite these recent achievements, significantly more funding is needed simply to bring the Northeast Corridor into a state-of-good repair – to say nothing of the need to accommodate future growth. The U.S. has underinvested in this vital asset for decades, and it will take substantial effort on the part of the Federal government, State governments, Amtrak, and other users of the corridor to modernize and upgrade the aging infrastructure.

Moving Forward: Status of the Northeast Corridor FUTURE Study



The Preliminary Study Area encompasses the region served by the NEC spine between Washington, DC and Boston, Massachusetts, plus those areas that can be reached directly by train or via a transfer to connecting corridors.

In February 2012, the Federal Railroad Administration initiated a comprehensive planning effort to define, evaluate and prioritize future investment alternatives for the Northeast Corridor through 2040, and to develop a new EIS that is aligned with this vision. This new EIS is being used as a vehicle for identifying all Federal permits, reviews, and approvals – including the environmental permits, reviews, and approvals – to ensure compliance with requirements at the plan level and to facilitate and ease the permitting, approval, and review of future Federal actions implementing the plan and the projects proposed and developed to implement the plan. This effort – named NEC FUTURE – is one of the largest transportation planning programs ever undertaken, spanning hundreds of political jurisdictions across one of the most complex transportation, infrastructure, and land use environments in the world.

The NEC FUTURE program will result in a Passenger Rail Corridor Investment Plan (PRCIP), which essentially establishes a roadmap for future investment on the Corridor. The PRCIP consists of two coordinated documents:

1. *Service Development Plan (SDP)*: defines the vision for the NEC rail network in 2040; details the investments needed through 2040 to attain that vision; and quantifies the transportation and economic impacts/benefits that will accrue from implementing that vision.
2. *Tier 1 Environmental Impact Statement (EIS)*: as required under the National Environmental Policy Act (NEPA), this document evaluates broad environmental benefits and consequences of implementing the Service Development Plan, and is used as the vehicle to identify and address the Federal permitting, review and approval processes for the plan and its implementation. It sets the framework for subsequent project-level, "Tier 2" environmental review, permitting and approval analyses.

NEC FUTURE will result in a comprehensive, immediately-actionable development plan that accomplishes many objectives. It will ensure that we're improving the Corridor in a way that best meets the market-based needs of the Northeast's residents, visitors, and businesses. It will ensure that all near-term investments – in projects large and small – are designed to fit a long-term vision, saving substantial amounts of money and re-work in the years ahead. It will provide the legal and regulatory foundation for future capital projects by creating the envelope or foundation for the future development of the corridor. The Tier 1 EIS will also define what options are no longer on the table so these issues will not have to be revisited. And it will provide a technical and analytical base for subsequent engineering, environmental, and construction work.

The program will be completed in three phases:

- **Phase 1** focuses on data collection and validation, agency coordination, initial stakeholder and public involvement, the NEPA Scoping process, and initial development of alternatives for NEC FUTURE. This phase began in February 2012 and is scheduled for completion in February 2013.
- **Phase 2** includes further development and screening of alternatives, the Draft Service Development Plan, the Draft Tier 1 Environmental Impact Statement, opportunities for additional stakeholder and public involvement, and supporting technical analyses. This phase is scheduled to begin in Spring 2013 and take approximately 18 months to complete, pending the availability of Federal funding.
- **Phase 3** includes the Final Tier 1 EIS, Record of Decision, and Final SDP. This phase – as well as the project as a whole – is scheduled for completion in mid-2015, pending availability of Federal funding.

As part of this process, FRA is working closely with the Northeast Corridor Commission (NECC), an advisory body established by Passenger Rail Investment and Improvement Act of 2008 and consisting of representatives from Northeast States, U.S. DOT, Amtrak, and non-voting representatives from freight and commuter railroads. The NECC provides an important institutional vehicle for organizing the multitude of stakeholders with interests on the Corridor, allowing for much more efficient and effective vetting and decision-making. The NECC is also supporting NEC FUTURE through assistance in data collection and analysis, including conducting a critical survey of highway travel patterns in the region.

The NEC FUTURE project team is currently nearing the completion of Phase 1. The team has largely focused its efforts on three overarching priorities:

- Establishing a strong technical and analytical foundation for the program
- Building collaborative relationships with stakeholders at the federal, state and local levels, including the general public, business community, and elected officials
- Developing an innovative process that reduces delay and enhances the interagency/intergovernmental environmental review process

Establishing the Project's Technical and Analytical Foundation

The overall planning philosophy guiding the NEC FUTURE effort is to focus first on the needs of current and future travelers in the Northeast. Rather than starting from an infrastructure-based perspective (by, for example, drafting a "wish list" of capital projects), the project team believes it is important to first establish a framework oriented around the market-based needs and opportunities in the Northeast, and then design a capital program to meet those needs.

Over the last 8 months, the project team has been working throughout the study area on public outreach, scoping, data collection, and development of screening criteria and tools. We have made substantial progress in a number of areas:

- The scoping process is complete
- Following substantial public outreach, the list of Initial Alternatives and screening methodologies are now being developed
- Technical working groups are creating tools to evaluate capital costs, operations, and ridership

NEC FUTURE Objectives

- Upgrade & build capacity on mainline to meet 2040 commuter and intercity travel growth
- Evaluate needs and options for high-speed rail service
- Accommodate projected freight demand
- Evaluate options for more efficient railroad operations

The development of Initial Alternatives for NEC FUTURE is one of the most important activities in Phase 1. Through extensive public and stakeholder input, the project team has developed a set of nearly one hundred Initial Alternatives, which encompass a wide variety of options for better accommodating existing needs, establishing new services, and connecting to new markets.

In the coming months, these Initial Alternatives will be consolidated into a set of Preliminary Alternatives that capture the key themes and service elements contained in the larger group. This set will then be evaluated using technical screening tools that are currently under development, resulting in a list of Reasonable Alternatives that will be advanced and carried through the planning process.

Collaboration and Participation

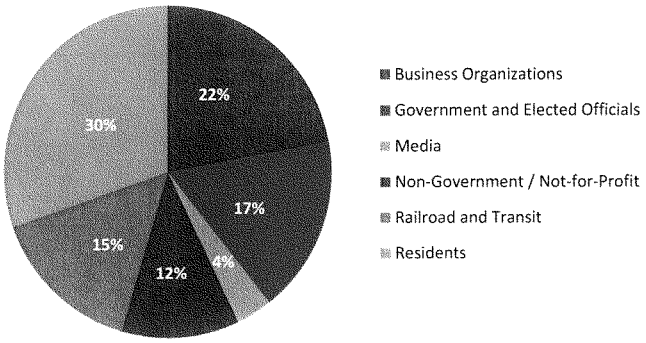
Millions of people and businesses rely on the Northeast Corridor. In order to ensure that the public and key stakeholders have meaningful and plentiful opportunities to participate in this process, FRA has established an outreach process that enables collaboration through a variety of methods:

- *Meetings & Workshops*: The NEC FUTURE team has conducted dozens of meetings with various stakeholder groups up and down the Corridor, including Scoping meetings held in nine cities throughout August 2012. Over 2,000 comments have been formally submitted to FRA as part of this process. "December Dialogues" were held earlier this

month in Boston, Philadelphia, and New York to provide the public with a status report on the Scoping and alternatives development process and allow for additional feedback.

- *Website*: In keeping with the effort's commitment to transparency, the NEC FUTURE website (http://www.necfuture.com/) was created to share materials related to NEC FUTURE. This site provides all stakeholders and interested members of the public with information on project involvement opportunities. Nearly 7,000 unique visitors have used the site since it was launched last spring. Additionally, FRA is tracking NEC FUTURE progress on the Federal Infrastructure Projects Dashboard (www.permits.performance.gov), which was launched in November 2011 to publicly track high impact, job-creating infrastructure projects.
- *Master Mailing List*: The project team has developed a contact list that includes over 1,800 key stakeholders.

Public Engagement at Scoping Meetings



Process Innovation

From the beginning of this effort, the Administration has looked for innovative ways to streamline and enhance the overall NEC FUTURE planning process. On January 13, 2012, DOT and the Council on Environmental Quality (CEQ) announced the selection of NEC FUTURE as part of a CEQ pilot program to establish best practices for providing the environmental permits, reviews, and approvals for making timely for large-scale, multi-state projects. The pilot program focuses on engagement and coordination of Federal and State resource and regulatory agencies, as well as other stakeholders, early in the planning process, in order to:

- provide agencies the opportunity to "guide" rather than "react" to the project;
- identify potentially sensitive resources early;
- avoid and minimize potential impacts;
- ensure that FRA has an early understanding of mitigation requirements and strategies; and

- allow for adequate agency participation in the development of analytical approaches and resource methodologies.

The NEC FUTURE project team held meetings and webinars with numerous Federal and State agencies throughout the Spring and Summer to develop the project's goals and preliminary purpose and need components. Many of these meetings took place in the field offices in each of the jurisdictions along the Corridor. Government-to-government consultation was initiated in early June 2012 to engage Native American tribes.

As a result of this early collaboration and engagement, when FRA published a Notice of Intent in June 2012 and conducted public and agency scoping meetings in August 2012, the state and Federal resource agencies were already familiar with the project and could provide more informed and effective comments. FRA and CEQ intend to continue this collaborative approach throughout the NEC FUTURE program.

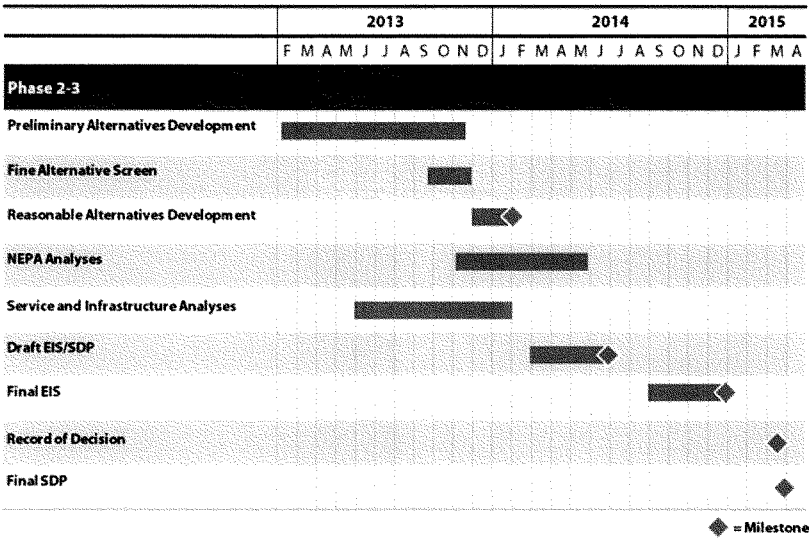
Conclusion and Next Steps

The NEC FUTURE team will be focused on completing Phase 1 in the months ahead. Several key products will be finalized during this time, including the Preliminary Alternatives Report and important technical analyses on a range of topics. The project team will also be continuing stakeholder engagement and outreach efforts throughout the study area.

Maintaining momentum and forward progress beyond Phase 1 is critical to the ultimate success of NEC FUTURE, especially considering the complexity of the program and the number of stakeholders involved. An additional $20 million is needed for Phase 2 (scheduled to begin this Spring), and $10 million will be needed for Phase 3 in 2014. This small investment – less than 0.03% of the average annual U.S. transportation budget – will yield significant transportation and economic returns in the decades to come.

Without this funding, the program will have to be put on-hold, stalling momentum in public outreach and agency coordination efforts, as well as resulting in the potential loss of top-tier transportation experts who have built important relationships and technical expertise over the past year. Pausing and then restarting the effort at a later date would increase costs and result in an inefficient process, with potential duplications of effort in data collection/analysis and stakeholder coordination. Now is the right time to complete this program – the right pieces and people are in place, we've generated substantial momentum and public focus on the effort, and the need for a coordinated and comprehensive blueprint to guide investment decisions has never been greater.

Preliminary Schedule for Phases 2 and 3 of NEC FUTURE



In closing Mr. Chairman, the Administration firmly believes that the Northeast Corridor is one of our Nation's most vital transportation assets. We are proud of the substantial NEC service improvements that have been achieved in recent years, and are excited to proceed with the NEC FUTURE effort. Secretary LaHood and I look forward to working with you to ensure this important work continues uninterrupted, as well as to develop a programmatic and legislative framework that ensures a sufficient and sustainable level of Federal investment in the Corridor for years to come. I would be happy to address any questions the Committee might have.

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REPUBLICAN MEMBER QUESTIONS FOR THE RECORD
To Karen Hedlund, Deputy Administrator, FRA
Full T&I Committee Hearing – Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation
Thursday, December 13, 2012

1. **What role does FRA expect the private sector to play in the NEC high speed rail project? From your perspective, what are the possibilities for the private sector in the NEC? If you do not know, what are your plans to develop that role?**

   The private sector is currently playing a robust role in the development and redevelopment of the major train stations serving the Northeast Corridor, including Washington Union Station, Moynihan Station in New York City, and Boston, South Station. Private investment in the commercial development in and around these stations has and will continue to provide a source of revenue for the development of the transportation functions of these stations, including new concourses and train halls.

   As part of the NEC FUTURE planning process, FRA will be evaluating potential funding scenarios as part of its development of a Service Development Plan for the Corridor. As part of that process, we will also be reviewing the work recently undertaken by Amtrak regarding potential private investment as part of its NEX Business and Financial Plan. We will also be engaging with the business community to obtain input from private sector entities interested in the Corridor.

2. **Secretary LaHood last week also explained that "There are lots of private investors working with the state of California, the Governor's office, and others about the ability to privately invest in this project." What has the Administration done to reach out to those investors for participation in the NEC?**

   Administration officials have had numerous conversations with potential private sector participants in various rail projects throughout the United States. Many of these entities have expressed interest in potential opportunities, not only California but also elsewhere in the country, including the Northeast Corridor.

   DOT and FRA are open to private sector investment and participation in all high-speed rail corridors and projects.

   As part of the Service Development Plan, NEC FUTURE will evaluate options for funding and operating the NEC, including the participation of the private sector in:
   - financing and development of NEC facilities and improvements
   - management of operation of the NEC assets.

3. **Your testimony mentioned that NEC FUTURE is part of a pilot program with CEQ. Can you please detail what this pilot program entails, how it will save time in the environmental review process, and how much time you estimate it will save? What are the prospects for implementing a similar pilot for other rail project reviews?**

On January 13, 2012, the Council on Environmental Quality (CEQ) and the U.S. Department of Transportation's Federal Railroad Administration (FRA) announced the selection of the NEC as their fourth National Environmental Policy Act (NEPA) pilot project, to establish best practices for large-scale, multi-state integrated and tiered decision-making, including the early engagement and coordination of federal and state resource and regulatory agencies and other local and regional stakeholders. The CEQ Pilot focuses on early and intensive coordination among stakeholders, identifying areas of concern and generally informing the process in an unprecedented way. The focus on early engagement sets the stage for continued strong coordination amongst the federal and state agencies critical in the planning and delivery of transportation projects in the region. While the CEQ Pilot is not designed to specifically reduce the time to complete the Tier 1 EIS where timing is driven in large part by the development of the Service Development Plan, the strength in investing in early coordination on environmental issues will allow for a more targeted Tier 2 NEPA process as the agencies will have been engaged from such an early stage – allowing for efficiencies and a reduction in the overall project delivery timeline. The approach used in the CEQ Pilot has been identified as a best practice and establishes a framework that can be modeled in future environmental review and permitting processes for other complex, multi-jurisdictional projects.

4. **As discussed at the hearing, have you evaluated and identified any ways in which you could speed up the NEC FUTURE process, so that we can have it completed sooner than 2015? If so, please explain. If not, why?**

The FRA has worked closely with the States and the operating railroads on the NEC throughout the NEC FUTURE process. This coordination was critical leading into the procurement process in defining the actual scope of the effort. It is important to the FRA and the NEC stakeholders that the NEC FUTURE process be comprehensive. To date, planning efforts in the northeast have been done in a piece meal fashion as this is a complex, multi-state region with multiple operators and users of the infrastructure. NEC FUTURE will develop an integrated framework for future passenger rail capacity and service improvements through 2040. This work provides the opportunity and planning framework for all of the regional stakeholders to work collaboratively in defining the future of the NEC. It is acknowledged that in order to accomplish this, the FRA is operating under an aggressive schedule given the complexity of the region and the multi-state nature of NEC FUTURE, but the effort is focused on comprehensiveness and accuracy to streamline future investments. The close coordination will set the stage for more efficient delivery of the projects that result from NEC FUTURE, which will yield overall time savings.

5. **Has the FRA considered ways to expedite the entire project of bringing high-speed rail to the NEC? If so, please explain. If not, why?**

Measuring the future demand for high-speed rail in Northeast is a critical component of NEC FUTURE. FRA is advancing with a market-based approach to determine how best to prioritize improvements to the NEC, including advanced high-speed rail technologies. Understanding the markets and customer needs allows for more informed decisions about the services that will be necessary to accommodate the growth of the future. However, NEC FUTURE is just not a high-speed rail study. It is the first effort in 35 years to

develop a comprehensive, integrated blueprint for future investment in the NEC to accommodate growing commuter, intercity and freight demand.

6. **As was requested at the hearing, please provide for the record the current market share of air travel and passenger rail travel between major markets in California served by both modes. Also, please provide for the record the California High-Speed Rail Authority's study on the projected shift of air passengers to rail passengers upon completion of the California High-Speed Rail Project.**

   There is currently no direct passenger rail service connecting San Francisco to Los Angeles, which is the market that will be served by Phase I of the California High-Speed Rail Project. (The once-per-day *Coast Starlight* long-distance train runs from Los Angeles to Oakland, with continuing service to Seattle. In spite of the lack of service, 200,000 passengers per year take an Amtrak bus between Bakersfield and Los Angeles on the San Joaquin Corridor, one of the busiest in the nation.) In 2030, under the low ridership projections, the California High-Speed Rail Authority estimates that high-speed rail will capture 30.9% of the Los Angeles-San Francisco end-to-end travel market, versus 28.8% for air and 40.3% auto. (See Table 5.15, http://www.cahighspeedrail.ca.gov/assets/0/152/431/7b890372-19c0-4ba7-aa98-aa1d49dea11b.pdf.)

   The current air/rail market shares for the major city pairs served by direct, commercial service on both modes are provided in the following table[1]:

City Pair	Est. Air Passengers	Est. Rail Passengers
Los Angeles-San Diego	40,000 (7%)	570,000 (93%)
Sacramento-San Francisco/Oakland	3,500 (1%)	682,000 (99%)
Bakersfield-San Francisco/Oakland	7,000 (8%)	86,000 (92%)

7. **As requested at the hearing, could you please provide the applicable budget requests that include further funding for the NEC FUTURE project?**

   The Administration strongly supports rail planning efforts, including the NEC FUTURE program.

   Continuation of work beyond Phase 1 is contingent on additional Federal funding. Phase 1 is currently under contract for $8.7M and this contract terminates in early February 2013. The additional funding needed to complete NEC FUTURE is $30M. The effort has been structured in phases due to the limited funding - Phase 2 is $20M and Phase 3 is $10M.

[1] Figures for both modes only include passengers traveling directly between these markets, and do not include travelers connecting to other destinations. Each market is served by multiple airports and train stations, which are aggregated in this table. Source: FRA analysis of Amtrak and FAA data from FY 2012.

Both the FY 2012 and FY 2013 President's budget requests for FRA included significant funding for a proposed new Network Development program. The program would fund planning and development of infrastructure, stations, equipment, and capacity necessary to implement the National High Performance Rail System (NHPRS).

The Administration's FY 2013 budget request includes $1 billion for the Network Development program. These resources would be competitively allocated to particular planning and development projects based on the evaluation and selection criteria described in PRIIA. The NEC FUTURE program, which is a comprehensive planning effort to define, evaluate and prioritize future investments in the Northeast Corridor, would be a strong candidate to receive support.

8. **Last week's hearing discussed the vast array of high speed and intercity passenger rail projects throughout the country. How does the NEC FUTURE project compare in terms of priority with other passenger rail projects in the U.S.?**

FRA has provided more than $2.5 billion in grants and loans to the Northeast Corridor, and the NEC FUTURE planning process is one of FRA's top priorities.

FRA has dedicated a full-time project manager to the effort (the first FRA rail planning/environmental project with such a resource), and several FRA technical experts are playing lead roles on technical working groups, as well as contributing to data collection and analysis. Additionally, FRA's leadership team is closely engaged on the effort, frequently participating in status meetings, delivering briefings to stakeholders, and attending public meetings and workshops throughout the study area.

9. **What are the lessons learned from your experience with the High Speed and Intercity Passenger Rail Program that can and should be applied to future high speed rail projects, including the NEC project?**

Several lessons learned and best practices from the early years of the HSIPR program have been applied to NEC FUTURE and will continue to guide future projects. These include:

- **Early engagement of all stakeholders**. Ensuring all stakeholders are at the table early in a project can save substantial amounts of time and resources in later stages, as well as provide for a stronger project. The NEC FUTURE team has made stakeholder engagement a top priority, and through a partnership with the Council on Environmental Quality has developed an innovative environmental review approach that is bringing all resource agencies together early in the process.
- **Multi-state coordination**. Few intercity rail corridors are entirely located within a single state. Cross-jurisdictional coordination and cooperation in planning and developing rail corridors is essential to successful projects. The NEC Commission is playing a critical role in the NEC FUTURE process by providing an institutional framework that can aid in the facilitation of multi-state coordination.

- **Strong planning foundation**. Projects that have been developed based on a consensus long-term vision, and which have a sound planning and technical analysis foundation, can be funded and implemented in an efficient and logical sequence that maximizes potential public benefits.

QUESTIONS FOR THE RECORD
TO
THE HONORABLE KAREN HEDLUND
DEPUTY ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION
FROM
THE HONORABLE CORRINE BROWN
RANKING DEMOCRAT, SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
HEARING ON
"NORTHEAST CORRIDOR FUTURE:
OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION"
DECEMBER 13, 2012

1. **In your testimony, you discussed the FRA's Service Development Plan which will define the vision for the Northeast Corridor (NEC) rail network in 2040. Some in Congress have recommended that development and operation of high-speed and intercity passenger rail on the NEC be turned over to the private sector. Some have also recommended splitting operations from infrastructure on the NEC and then bidding those out to various private entities. What are DOT's views on these proposals? What are the risks of turning over the entire project to the private sector? As part of the NEC plan, will there be a role for the private sector?**

   Any proposal for private investment or involvement in a rail corridor would need to be subject to detailed study and consideration. Any agreements would need to address such issues as operating standards, capital and ordinary maintenance, performance guarantees, and hand-back conditions.

   As part of the Service Development Plan, NEC FUTURE will evaluate options for funding and operating the NEC, including the participation of the private sector in:
   - financing and development of NEC facilities and improvements
   - management of operation of the NEC assets.

   Section 502 of PRIIA looked at restructuring the NEC through a private/public partnership. No proposals for NEC restructuring were received in the PRIIA-mandated initial solicitation.

   DOT and FRA are open to private sector investment and participation in all high-speed rail corridors and projects.

2. **A witness at the hearing stated there are private sector entities interested in investing in or bidding on development and operation of high-speed rail on the NEC. Did any entities apply to develop or operate high-speed rail on the NEC when the DOT issued its request for proposals? If not, are you aware of any serious interest from the private sector that does not involve funding or some sort of financial guarantee from the federal government?**

See answer to question 1. There was no interest from the private sector without the involvement of federal funding.

3. **In your testimony, you mentioned that maintaining momentum and forward progress beyond Phase 1 is critical to the ultimate success of NEC FUTURE. Can you please talk a little more about what your needs are in order to continue to move NEC FUTURE forward? If you do not receive additional funding next year, what will happen? What risks are involved if funding is delayed?**

Continuation of work beyond Phase 1 is contingent on additional Federal funding. Phase 1 is currently under contract for $8.7M and this contract terminates in early February 2013. The additional funding needed to complete NEC FUTURE is $30M. The effort has been structured in phases due to the limited funding - Phase 2 is $20M and Phase 3 is $10M. It is critical to keep the momentum going. Thousands of people – from the public to local elected officials to business leaders – are engaged in this effort, and it is imperative we keep it moving forward without delay. There are significant risks involved if funding is delayed. The work would stop, resulting in a loss of momentum in public outreach, agency efforts/buy-in, data collection and technical analysis/resources. Delay in the planning process may also result in preclusion of development opportunities as a result of needed properties being put to other uses in the interim. The results of NEC FUTURE will serve as a critical component to future funding for maintaining and improving the NEC, and it is important that the NEC states remain competitive for funding for capital improvements.

4. **As we look toward reauthorization next year, is there anything Congress can do to help move NEC FUTURE forward?**

As described in the response to Question #3, above, Congress needs to provide funding for Phases 2 and 3 of NEC FUTURE in order for this important and historic effort to move forward. FRA views this project as providing a template for effective multi-state corridor planning throughout the U.S., a proposal we have described in the President's FY 2013 Budget.

5. **We are likely going to reauthorize the Passenger Rail Investment and Improvement Act next Congress. What high-speed/intercity passenger rail-related issues would you recommend we address in a reauthorization bill?**

The Administration looks forward to working with Congress to authorize a sustainable, long-term rail program upon the expiration of PRIIA. Many of the Administration's priorities have been laid out in budget proposals over the past few years. We will make staff available to discuss any aspects of our passenger rail programs and policy changes that Congress should suggest during the legislative process.

TESTIMONY

OF

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BEFORE THE
COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE
HEARING ON
"NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION"

THURSDAY, DECEMBER 13, 2012
10:00 A.M.
2167 RAYBURN HOUSE OFFICE BUILDING

Thank you very much for the opportunity to testify this morning, Mr. Chairman.

I know that today's hearing is meant in part as a "bookend" for the program of hearings and reviews of intercity passenger rail policy that began when you assumed the Chairmanship of the Committee two years ago. I thought that it might therefore be of interest if I reviewed some of the things Amtrak has done, particularly during the past two years, during this period to improve service on the NEC, contribute to the economy of the region we serve, and develop the only existing high speed rail service in our country.

These have been successful years. Since 2000, Amtrak's ridership has risen by almost half, and we've set nine annual ridership records in the last ten years. Our market share in the Northeast has risen dramatically. In 2000, we carried about one passenger between New York and Washington for every two carried by the airlines; today, we carry three passengers for every airline passenger. Similarly, we carried one passenger between New York and Boston in 2000 for every four who flew; today, we carry more people between these two cities than all of the airlines put together.

I think we all know what happened here. First, *Acela* and extension of electrification from New Haven to Boston brought greater speed and comfort to our services. Then, with the strong support of the Federal government, Amtrak invested heavily in the Northeast Corridor to replace aging and failure-prone components of its infrastructure. These investments improved the reliability and resilience of the system, reducing the number of failures and speeding the recovery process when they did occur. With a giant boost from the American Recovery and Reinvestment Act, these investments have allowed us to improve NEC reliability over the last

two years, so that in FY 2012 our *Acelas* were just short of 90% and our Northeast Regional services exceeded 85%, helping to make FY 2012 our best year ever for on-time performance.

During the last several years, we replaced numerous aging bridges, including the 105 year old Niantic River drawbridge, and we were able to replace deteriorating concrete ties which were forcing trains to lose time. Some of the older components of our electric traction system were replaced with modern installations that provide better reliability, and positive train control installation on the Northeast Corridor infrastructure is approaching completion. Finally, numerous improvements have been made to improve the resilience of our infrastructure. We cut back more than 230 miles of trees and other vegetation from the track, so that there would be less risk to electric traction systems and signals from falling branches and deadfall. We cleared out culverts and drainage ditches, to ensure that heavy or sudden storms wouldn't damage the track structure. These were wise investments – although just how wise, we didn't fully appreciate until Sandy hit.

Similarly, we began our fire and life safety improvement program in the New York tunnels in 2002, and we completely rebuilt the ventilation systems. This was a challenging task, requiring extended weekend tunnel outages, but it made a difference when Sandy hit. These improvements allowed us to pump out the tunnels and return them to service in days, rather than weeks.

Sandy also highlighted the fragility of our aging infrastructure, and the desperate need for new capacity. The continued operation of Amtrak service along the Northeast Corridor, and commuter rail service between New Jersey and Manhattan, is entirely dependent upon those two single track tunnels, built more than 100 years ago, that were designed to meet the transportation

demands of the early 20th century. If we fail to address the need for additional tunnel capacity and operational redundancy into New York City, as we've proposed through our Gateway Program, when the next disaster strikes, we're taking a bigger risk than the tightrope walkers in the circus at Madison Square Garden. And we don't even have a net.

Amtrak also worked with the FRA to seek out Recovery Act and High Speed and Intercity Passenger Rail grant funding to build out trip-time and capacity improvements on our existing infrastructure. With the assistance of a $450 million grant from the FRA, we have begun the rehabilitation of the electrical system and track structure in northern New Jersey. As a preliminary step, we have been testing our *Acela* trains to ensure we meet the validation requirements for 160 mph service. We are now in the early stages of the process of planning and constructing the physical improvements that this segment needs to support faster service and more fluid movement of both Amtrak and New Jersey Transit commuter trains. We expect to complete this project in 2017.

To support these initiatives, we are also working to realign our corporate structure to transform Amtrak. Much of this effort is focused on changing the company's culture, which is a matter not only of improving day-to-day customer service, but of preparing the company for the challenges inherent in managing a transformational, multibillion dollar capital program. As you know, Amtrak has proposed several major capital investment programs for the region that are intended to transform the transportation and travel systems that underpin the regional and national economies. The company is reorganizing along "business lines" that will provide a more focused management of certain core functions. For the first time, the Northeast Corridor's

infrastructure has been identified as one of those functions, and we have created a business line dedicated specifically to its management and development.

Our ongoing transformation process is intended to create an internal corporate culture that emphasizes collaborative management and organizational improvements. The intent of this is twofold: first, to transform how we relate to one another, so that internal operations are more efficient and effective, and second, transforming the way we deal with our customers and business partners. The Northeast Corridor Infrastructure Investment and Development business line is therefore designed both to provide the expertise and the vision needed to develop and manage an asset such as the NEC and to deal effectively with the states, the commuter partners, the Federal government, and supporting organizations such as the NEC Infrastructure and Operations Advisory Commission in shaping a joint approach for the funding and improvement of this complex, multi-user corridor.

With these needs in mind, Amtrak has advanced a suite of major project proposals designed to address the NEC's growth and development needs. As laid out in 2012 NEC Vision Update report, we envision two programs that focus on improving today's NEC for all users and expanded high speed service through the development of a NextGen HSR system. The first program, our NEC Upgrade Program, is based on the strong planning work we undertook with our state, freight and commuter partners in 2010 to develop the $50 billion NEC Master Plan, which sets out the capital investments needed to support the anticipated growth of intercity, commuter and freight service on the existing NEC between now and 2030.

This program seeks to return the NEC to a state of good repair, add additional capacity to allow limited service growth, and make targeted trip time improvements for all existing intercity, commuter and freight services. Under this program, Acela frequencies could increase to up to 3 per hour in peak periods and we could bring Washington to New York trip times down to roughly 2 hours and 15 minutes. Among the biggest beneficiaries of this program are the roughly 2,000 commuter trains that use the NEC daily. Without these improvements to the NEC, many of the commuter railroads will simply be an unable to add additional trains to the NEC in the coming years. The program also includes our proposed Gateway Program to build vital track, tunnel and terminal capacity that Amtrak and the commuter carriers will need to support traffic growth into and out of Manhattan and the our Washington Union Station Master Plan to add capacity to our second busiest terminal while supporting the development of an entirely new neighborhood over our tracks.

Our second program, NextGen high-speed rail, is our biggest vision yet and is designed to provide America's economic, political, and cultural capitals here in the Northeast with the type of world-class high speed rail service the region deserves. This proposed dedicated high speed rail system would link Washington, New York and Boston on new and existing alignments, offering huge increases in service frequency at speeds of up to 220 mph. This new system is needed because the current NEC is simply too congested, with its current fleet of 2,200 daily commuter, freight and intercity trains, and too curvy, with much of its route dating back to the 1850's, to support this type of high-speed rail service. As every major high speed system around the world has shown, dedicated tracks and new alignments are necessary to support very

high speed trains and to permit the type of frequent and reliable service that has made these services financially successful.

So, taken together, these two programs will both improve the existing NEC for all users, which must be done to protect the existing services and allow near-term growth, while also creating an entirely new high speed service that unlocks the potential of our currently constrained Acela service. While these plans call for a total capital investment in the $100 to $150 billion range over the next 30 or so years, they will provide America's most densely-populated and congested region with a transportation alternative designed to accommodate nearly a century of growth. While all of these plans are still in the early stages, we are working now with the FRA to support their ongoing NEC service development and environmental impact analysis process, known as the "NEC FUTURE" program that will set the course of the NEC for the decades to come.

Just as the FRA analysis is carefully examining all of the alternatives and possible effects associated with a major investment in the NEC, we are studying the prospects for private financing and innovative partnerships with the private sector. As part of our planning efforts to develop our vision for the NEC, we undertook an NEC Business and Financial Plan that considers many possible strategies to fund and finance these two programs for the NEC and looks at the likely ridership and revenues opportunities that come from building such a system. With possible operating profits over a billion dollars annually and ridership well into 40 million riders a year upon full build-out, Amtrak expects that private capital funding, probably in the form of a public-private partnership, could play a significant role in this project. But, as Amtrak has testified before, international experience and our own initial investigations make it clear that

the initial stages of these programs must be funded predominantly with public money. It is only after the public sector has allocated significant funding and committed itself to a project of this magnitude that the private sector is willing to enter the deal and deliver value for money. In fact, looking around the world, private sector involvement in high speed rail development is often sought after a government or state railway has constructed a line and high speed rail service is initiated. Once these services are generating revenue streams and most of the planning, environmental and financing risk has been borne by the public, these projects can and will attract private funding that can help repay initial capital costs.

Much of the work I have described has been accomplished in the past two years; more will be accomplished in the years to come. While I am certain that we have been good stewards of the existing system, I believe we have a responsibility to help create an integrated vision and a partnership for the further development of the NEC. Through our significant participation in the 8th Word Congress on High-Speed Rail in Philadelphia this past year to our on-going collaboration with the DOT, our partner railroads and the states in the NEC Commission , the degree of Amtrak's involvement in cooperative planning and the sharing of best practices far exceeds anything that has come before. We have created a plan and are busy assembling a coalition of supporters; the next step will be obtaining Federal support, for as I said earlier, any plan on this scale can only advance with Federal support. Last week I asked the Senate Commerce Committee to consider the first tranche of funding - $336 million, which will fund both our recovery from the impacts of Sandy and the early initial elements of the Gateway program. While this is an enormous capital challenge, I believe the cost of inaction is far greater. If there ever was a project of national significance requiring Federal leadership, this is it, and I

firmly believe that if we can get the federal government to make some initial commitments to this program, we can build a coalition of states, cities, other NEC users, and the private sector that can turn this vision into reality.

So, while finding that funding will be a major challenge, I am confident that we have mapped out a workable plan, and that our search for a truly regional solution to the challenges of capacity and resilience will be successful. This region is the nation's economic powerhouse, generating one out of every five dollars of GDP. Eighty percent of its population lives with twenty-five miles of the NEC. NEC rail service is increasingly sought out by travelers who are sick of congealing highways and clogged airports. If we are to continue to provide the nation and the region with a workable transportation alternative, we will need significant investment. We have often spoken of Amtrak in the past as a transportation alternative, but as the market share data I mentioned earlier shows; we are not so much an alternative as a preferred choice. It's clear to me as a businessman that the market is sending us a message – and I look forward to working with the Committee in the months and years to come as we work together to answer that message, invest in our country's future, and provide the region with the travel choices it wants and needs.

REPUBLICAN MEMBER QUESTIONS FOR THE RECORD
To Joseph Boardman, President & CEO, Amtrak
Full T&I Committee Hearing – Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation
Thursday, December 13, 2012

1. As was discussed at the hearing, please set forth the projected costs for each of the Stair-Steps set forth on page 13 of the *Amtrak Vision for the Northeast Corridor: 2012 Update Report.*

Answer to Question 1:

Stair Step 1: 2013-2020 $11.1 billion
Stair Step 2: 2020-2025 $47.2 b
Stair Step 3: 2025-2029 $38.6 b
Stair Step 4: 2030-2034 $27.7 b
Stair Step 5: 2035-2040 $25.9 b
Total: $150.5 billion

2. At the hearing on December 13, the ridership correlation between the California High-Speed Rail project and the NEC project was discussed. Please provide for the record the ridership data sets that correlate between the two projects.

Answer to Question 2:

An assessment undertaken as part of Amtrak's *Business and Financial Plan* projects that, with full operation of the NEC Next Generation high-speed rail service in 2040, total ridership on the Northeast Corridor would reach 43.5 million.

Amtrak is not affiliated with the California High-Speed Rail project. For information and data related to projected ridership, we respectfully suggest the Committee consult the California High Speed Rail Authority.

3. At the Committee's hearing on December 6, 2012, Secretary LaHood explained that "There are lots of private investors working with the state of California, the Governor's office, and others about the ability to privately invest in this project." What has Amtrak done to reach out to private investors for participation in the NEC?

Answer to Question 3:

Amtrak developed a *Business and Financial Plan* to determine how to fund and finance the *Vision Plan* and to evaluate different ways that the private sector could be involved. The Business and Financial Plan findings suggested that significant private sector involvement will be required to realize the improvements described in the *Vision Plan*. Early introduction of the private sector is most likely through the use of design-build arrangements.

Private partners are expected to play a critical role in delivering high-speed rail. They bring widely recognized expertise in financing, system design, station development and infrastructure delivery. Amtrak is also interested in partnerships with the private sector for the development of Amtrak parcels and air-rights above Amtrak-owned track.

The experience of high-speed railways in other parts of the world and testimony presented by other witnesses at this hearing has shown that private sector financing of system capital costs are likely to make up only a marginal share of total costs. However, public-private partnerships (P3s) grow increasingly likely and useful once systems are built and running, have demonstrated market appeal, and are generating sufficient revenue streams to attract the private sector.

4. Has there been private sector interest in this project? If yes, what role is the private sector expected to play in this project? Does Amtrak envision offering an operating concession for the high-speed rail service? If yes, what would be the length of the concession and what risks will be assumed by the private sector and what risks by Amtrak? Will there be revenue guarantees?

Answer to Question 4:

Amtrak has received inquiries from the private sector on the *Northeast Corridor Vision Plan*, mostly from the finance industry. However, as discussed above, international experience suggests that private sector investment is not practical without a significant governmental commitment to provide the bulk of the necessary capital to allow an increased level of service and revenue generating capacity.

Amtrak has partnered in the past and currently partners with the private sector on real estate and station development projects on the Northeast Corridor. We are currently working with a private developer on the *Washington Union Station Master Plan* and are looking into a similar arrangement for the development of the 30th Street Station master plan.

Other types of P3s that could be applied in the Northeast Corridor include long term contracts with equipment manufacturers, such has recently been attempted in the United Kingdom, where the manufacturer guarantees a certain level of equipment performance and availability, and is responsible for the long-term maintenance, maintenance facilities, and provision of the equipment, in return for availability payments. Amtrak will consider these options as it looks to procure new high-speed rolling stock for the NEC.

Amtrak is the successful operator of North America's only high-speed service and, as such, intends to continue to operate the high-speed and intercity services on the NEC. While Amtrak is not considering exiting this service or offering a concession for high-speed rail service, Amtrak may consider operating partnerships with other high-speed rail providers if such partnerships could bring value to our NEC operations.

5. What is the financing plan for the $151 billion—that is, how much capital money is expected to come from the public sector and how much from the private sector? How much are states and local governments, including commuter rail operators, expected to contribute versus the federal government?

Answer to Question 5:

The proportion of public to private funding is based on our review of the global high-speed rail experience. International experience with high-speed rail suggests that the federal government will likely need to contribute roughly 50 percent of total program funding, including most of the funding in the early years, until increased and new revenue streams can be created that can attract private capital.

With this initial investment secured, other regional pubic entities (NEC states, commuter agencies, municipalities, etc.) would be likely candidates to contribute roughly up to another 20 percent of program costs. Amtrak's *Business and Finance Plan* outlined several potential sources of revenue for this balance of funding including expanded access fee contributions from NEC partners, bonds against anticipated

revenues, state/local contributions from local taxes and tax increment financing, all of which try to capture some of the eventual local value created by the project to help fund the project.

We believe the balance of program funding could come from increased Amtrak ridership and ancillary revenues generated as a result of program investments and from private-sector partners willing to invest in the program in exchange for some portion of this increased revenue stream over time.

6. For the *Vision Plan*, has Amtrak begun modeling demand and operating costs? If so, please explain. If not, why has Amtrak not begun to do so? If there is a profit, will this profit cover the capital costs of the project or just annual operating costs?

Answer to Question 6:

As part of its *Business and Financial Plan*, Amtrak modeled future travel demand, operating costs and projected revenues. At full build-out in 2040, it is projected that revenues will cover operating, maintenance and ongoing capitalization costs and generate an annual operating surplus of $1.65 billion.

7. Given the reorganization of Amtrak with a business line dedicated to corporate asset development, what is Amtrak's plan for increasing non-rail revenues (e.g., wire and pipeline leases, cell towers, billboards, etc.) along the Northeast Corridor? What are the sources of those revenues and what is the historic growth of those revenues? What is the staffing that exists to market these non-rail revenue opportunities to third parties?

Answer to Question 7:

Amtrak generated approximately $95 million in revenue in FY 2012 from contracts managed by Amtrak's real estate development department, of which $82 million was generated on the Northeast Corridor. These revenues are derived from retail leases, parking facilities, advertising, telecommunications, pipe and wire agreements and miscellaneous real estate transactions and also include an accounting credit (of $2.2 million) for which no cash is received. Revenue for FY 2012 was exceptional due to several one time and non-recurring transactions. Historically, the real estate development department has generated revenue in the range of $70 to $75 million from recurring and non-recurring transactions. Recurring transactions generally increase at a fixed rate of 2-4 percent or by the consumer price index.

The Amtrak *NEC Business and Finance Plan* explored additional opportunities to increase non-rail revenues with the construction of Amtrak's NextGen HSR plan. It estimated that up to $120 million in additional annual non-rail revenues could be generated under the full build out of the NextGen plan in 2040.

In regards to staffing, Amtrak's new Northeast Corridor Infrastructure and Investment Development (NEC IID) business line now has principal responsibility for advancing the development of Amtrak's NEC assets, supported by Amtrak's real estate and facilities departments. In addition to Amtrak's exiting staff within these groups, Amtrak is in the process of hiring a principal officer for Northeast Corridor station development within NEC IID. One of the duties of the person will be to generate revenues from Amtrak's real estate holdings and other assets in and around stations on the Northeast Corridor.

8. In 2004 GAO found that Amtrak did not act to comprehensively plan or manage the Northeast High-Speed Rail Improvement Project. GAO recommended that Amtrak adopt policies and procedures for managing infrastructure projects that were based on best practices for managing large-scale infrastructure projects. What actions has Amtrak taken in response to GAO's recommendations? How are you ensuring all stakeholders are included in project planning and decision making?

Answer to Question 8:

The "best practices" GAO recommended in 2004 that Amtrak adopt for large-scale infrastructure projects were: (1) conducting comprehensive project planning; (2) assessing risks and identifying mitigation measures; (3) comprehensively managing project finances; (4) establishing accountability for and oversight of projects; and (5) incorporating stakeholders' interests in planning and implementing projects.

Amtrak has implemented GAO's recommendations in planning and carrying out major infrastructure projects. The most notable example is Amtrak's *NEC Vision Plan* to develop Next Generation (Next Gen) high-speed rail (HSR) service in the Northeast.

The *NEC Vision Plan*, announced in 2010 and updated in 2012, is still in its earliest stages. However, Amtrak recognized from the outset that the unprecedented magnitude and challenges associated with that project would require the development of entirely new project management capacity and processes within Amtrak, and new approaches to working with other NEC stakeholders. In recognition of this, Amtrak did the following:

- Issued a comprehensive *NEC Master Plan* in May 2010, and an initial report in September 2010 that described how Next Gen HSR service could be successfully developed in the Northeast;
- Undertook a comprehensive planning process that led to the issuance in June 2012 of an updated *NEC Vision Report* that set forth Amtrak's plan to advance critically needed near term projects to develop a Next Gen HSR system through a phased program of "Stair-Step" improvements;
- Developed a detailed *Business and Financial Plan* that quantified the projected capital costs, ridership, revenues and operating costs associated with the various phases of the *NEC Vision Plan*, and identified and assessed potential governmental and private sector sources of capital funding;
- Included in its planning process a detailed assessment of the risks associated with the *NEC Vision Plan* and actions that could be taken to mitigate them;
- Established the NEC Forum as a vehicle for sharing and seeking feedback on its plans with international high-speed rail experts around the globe in order to identify best practices in high-speed rail construction, operations and rail service that could be successfully developed in the Northeast (The NEC Forum held its first meeting in July 2012); and
- Created a new business line responsible for Northeast Corridor Infrastructure and Investment Development to provide the necessary accountability, focus and capacity to carry out the *NEC Vision Plan*.

Throughout the NEC Vision process, Amtrak has worked in partnership with the FRA, NEC commuter and freight railroads, state and local governments, private sector partners and other NEC stakeholders to develop and refine the *NEC Vision Plan*. Following the 2010 publication of the *NEC Master Plan* and initial *NEC HSR Vision report*, Amtrak engaged in extensive stakeholder outreach. The stakeholder input and recommendations developed during that process significantly shaped, and were reflected in, the 2012 update of the *NEC Vision Plan*, and in the development of the *NEC Finance and Business Plan*.

Amtrak continues to be actively engaged with its commuter, freight and governmental partners in planning the future of the NEC. Amtrak is participating with other members of the NEC Infrastructure and Operations Advisory Commission in developing a five-year plan of priority capital projects on the Northeast Corridor. The FRA's NEC Future process provides a new forum for developing the long-range

vision for the NEC with other NEC stakeholders, and for collaborating with FRA as it prepares the *NEC Service Development Plan* that will quantify future rail service levels on the NEC and identify the infrastructure investments needed to accommodate them.

QUESTIONS FOR THE RECORD
TO
MR. JOSEPH BOARDMAN
PRESIDENT AND CEO, AMTRAK
FROM
THE HONORABLE CORRINE BROWN
RANKING DEMOCRAT, SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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FOR PRIVATE SECTOR PARTICIPATION"
DECEMBER 13, 2012

1. Does your *2012 Vision for High-Speed Rail on the NEC* include working with private sector partners? If so, can you please talk a little bit about how this would work?

Answer to Question 1:

Private partners are expected to play a critical role in delivering high-speed rail. They bring widely recognized expertise in financing, system design, station development and infrastructure delivery. Early introduction of the private sector is most likely through the use of design-build arrangements. Amtrak is also interested in partnerships with the private sector for the development of Amtrak parcels and air-rights above Amtrak-owned track.

The experience of high-speed railways in other parts of the world and testimony presented by other witnesses at this hearing has shown that private sector financing of system capital costs are likely to make up only a marginal share of total costs. However, public-private partnerships (P3s) grow increasingly likely and useful once systems are built and running, have demonstrated market appeal, and are generating sufficient revenue streams to attract the private sector.

2. Some in Congress continue to emphasize contracting out development and operation of high-speed and intercity passenger rail on the Northeast Corridor (NEC) to the private sector (other than Amtrak). If the NEC is privatized and taken away from Amtrak, what impact will this have on Amtrak's ability to operate around the rest of the nation? Will Amtrak be able to maintain its current state supported and long distance routes?

Answer to Question 2:

While Amtrak NEC train operations (*Acela* and *Regional* services) make a net contribution above operating costs, the NEC requires hundreds of millions in annual federal capital support for NEC infrastructure in order to generate this result. Thus, the operation of the train service would presumably only be attractive to private operators if the public sector continued to substantially subsidize the infrastructure costs, allowing the private operator to retain the operating proceeds as profit. Therefore, today's net operating contributions would be captured by the private entity instead of being invested back into the entire national Amtrak system, including the NEC infrastructure, as they are today.

Amtrak takes its statutory responsibility as a steward of the NEC for all partners and operators as an underlying, fundamental principle that shapes our infrastructure investments and operating practices. Privatization of the NEC infrastructure would presumably be predicated on the commercialization of access to the NEC, which would allow the private operator to generate revenues exceeding infrastructure capital and operating expenses. Under such a scenario, commuter, freight, state supported and long distance services could all be impacted as capacity and access is rationed by price in order to generate additional revenues. Amtrak's observation of international experience with private sector management of railways suggests that private sector infrastructure management interests do not always align with the public purpose goals of all services.

3. Some in Congress have criticized Amtrak's *Vision for High-Speed Rail on the NEC*, stating that costs could be cut by one-third and the project would be completed in one-third of the estimated timeframe if the private sector was involved. Do you agree with that statement? Why or why not?

Answer to Question 3:

Claims that high-speed rail (HSR) service on the NEC could be significantly expanded at greatly reduced costs and time frames are not based upon a realistic understanding of the current needs on the existing corridor, the cost of building a new, 427-mile two-track right-of-way along the most densely populated and valuable coastline in the United States, or the complexity of delivering this project alongside an active railway that already moves 2,002 trains per day.

However, Amtrak believes that this project could be delivered at lower cost and with an accelerated time frame if the federal government makes a significant initial commitment to the program and provides annual, dedicated funding, which would reduce funding uncertainty, and with it associated costs of inflation, political risk and borrowing costs. Additionally, permitting and other regulatory requirements could be further optimized and streamlined to ensure that all respective authorities required for such a program across this multi-state corridor could be efficiently obtained.

4. Did Amtrak have any international entities or other peers independently review the *Vision for High-Speed Rail*? If so, who? What was their reaction?

Answer to Question 4:

Yes. In June 2011, Amtrak announced the results from an international peer review by leading European and Japanese high-speed rail operators validating the proposed Amtrak next generation high-speed rail project. These high-speed rail operators reviewed the Amtrak next-generation high-speed rail vision plan and expressed support for its phased approach to achieve 220 mph (354 kph) service on the Northeast Corridor. The operators also suggested that while Amtrak's total assessment is sound and reasonable, the proposed service may generate more ridership, revenue and market share and may cost less to build than initially estimated.

5. In your testimony, you discussed the Gateway Program and stated that if we fail to address the need for additional tunnel capacity and operational redundancy into New York City that "when the next disaster strikes, we're taking a bigger risk than the tightrope walkers in the circus at Madison Square Garden." Can you talk a little more about what this capacity and redundancy will do?

Answer to Question 5:

The greatest congestion and the most vulnerable section of the entire Northeast Corridor is the terminal trackage leading to Penn Station New York. The flooding produced by Hurricane Sandy and all-too-frequent major delays during peak periods are strong reminders that the current infrastructure is not up to the task at hand. A catastrophic failure of either of the Hudson River tunnels would render service to the busiest passenger station in the hemisphere at marginal levels for an extended period – possibly years in duration. New design standards that will be incorporated in the Gateway Program would provide sufficient protection to prevent flooding during a Sandy-scale storm. Additionally, only with the completion of new tunnels will there be an opportunity to remove the existing, vulnerable infrastructure from service long enough to rebuild and harden it sufficiently to protect it equally.

6. Can you discuss some of Amtrak's needs as a result of Hurricane Sandy and how we can harden infrastructure in the Northeast?

Answer to Question 6:

Amtrak's $336 million request for emergency funding for Hurricane Sandy includes $276 million for measures that provide enhanced protection and improved recovery capability of Penn Station New York and its tunnels against future flooding or emergency disruptions.

This includes elements such as:

- Elevating and improving a major electrical substation at Kearny, N.J. that supplies power to the NEC and flooded during Sandy. Amtrak would place it atop a platform high above the water line, with space to include additional electrical capacity in the future for higher levels of rail traffic under the Gateway Program.

- Designing a high density signaling system for the East River tunnels to provide greater flexibility and capacity in the case of emergency or outage. (Amtrak lost two of those tunnels during Hurricane Sandy, when they flooded).

- Advancing design and early construction of elements of the Gateway Program, such as a section of tunnel urgently needed through the Hudson Yards development project in Manhattan before that project precludes future tunnels, as well as the Portal Bridge North project over the Hackensack River. Advancing particular elements of the Gateway Program would provide permanent and substantial new levels of flood protection, redundancy and capacity to the system.

7. We are likely going to reauthorize the Passenger Rail Investment and Improvement Act (PRIIA) next Congress. What issues would you recommend we address in a reauthorization bill?

Answer to Question 7:

Amtrak is in the early stages of preparing principles for the reauthorization of PRIIA for the Committee's consideration this session and will provide them as soon as they are available.

Amtrak generally supported the passenger rail provisions contained in the Senate-passed version of MAP-21 and submitted general recommendations for the reauthorization of the surface transportation programs in each of its past three *Grant and Legislative Reports to Congress* (Fiscal Years 2011-2013). These

recommendations would support the development of intercity passenger rail, and we urge the Committee to consider them as you prepare for reauthorization of MAP-21 in the 113th Congress.

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Written Testimony of Joan McDonald
Commissioner, New York State Department of Transportation
Chair, Northeast Corridor Infrastructure and Operations Advisory Commission
U.S. House Committee on Transportation and Infrastructure
December 13, 2012

Good morning Chairman Mica, Ranking Member Rahall and Members of the Committee. I am Joan McDonald, Commissioner of the New York State Department of Transportation and chair of the Northeast Corridor Infrastructure and Operations Advisory Commission (Northeast Corridor Commission). I am pleased to have the opportunity to discuss the activities of the Commission as we work together to address the short and long-term needs of the Corridor.

The Northeast Corridor Commission was authorized in the Passenger Rail Improvement and Investment Act (PRIIA) in recognition of the inherent challenges of coordinating, financing, and implementing major system improvements that cross multiple jurisdictions. The Commission is comprised of members from each of the Northeast Corridor states, Amtrak, and the U.S. Department of Transportation and includes non-voting representatives from freight railroads and states with connecting corridors. The expectation is that by coming together to take collective responsibility for the Northeast Corridor (NEC), these disparate stakeholders will achieve a level of success that far exceeds the potential reach of any individual organization.

Realizing a bolder vision for the future requires unprecedented collaboration. Comprehensive planning is difficult for a system that spans eight states and the District of Columbia, supports nine passenger rail operators – including four of the five largest commuter rail services in North America, serves four freight railroads, and has four separate infrastructure owners. It is also a challenge to ensure that near-term capital projects align with long-term infrastructure and service plans. A key charge for the Commission is to work with its members to develop strategies for coordinated action.

This spring, the Commission will release a report documenting the current state of the Northeast Corridor transportation system across all modes so that we can have a clear understanding of the transportation challenges facing the region today as the Commission formulates its recommendations. As required by statute, later next year we will also publish an economic development study on the impacts of Northeast Corridor rail service on the region to help inform our short and long term recommendations and investment strategies.

To help place the Commission's work in proper context, the Northeast Corridor region itself is home to over 50 million people, or one out of every six Americans. It is the country's economic powerhouse, generating $1 out of every $5 in gross domestic product (GDP). One out of every three Fortune 100 companies has its headquarters in close proximity to the NEC.

All this activity occurs on less than two percent of the nation's land area. The density that supports this immense productivity, however, also creates congestion challenges for our transportation network. Automobile traffic in the region results in approximately $22 billion per year in lost

productivity (2010). Bottlenecks at Northeast airports have national repercussions. The major airports in New York and Philadelphia are the originating source of half of the nation's flight delays.

The Northeast Corridor rail line is one of the busiest and most complex railroads in the world. It carries over 2,100 commuter trains, 150 intercity trains, and 60 freight trains every weekday. These trains carry over 700,000 commuters and 40,000 intercity passengers daily; people who might otherwise use the region's congested highways and airports. Feeder routes, such as New York's Empire Corridor and Pennsylvania's Keystone Corridor extend the reach of the NEC to additional communities. In turn, the connecting corridors contribute to the total Northeast Corridor ridership.

The Northeast Corridor must balance acute investment needs just to maintain the safety and reliability of current services with the need to address consistently growing service demands. Hundreds of the Corridor's bridges and tunnels are more than a century old (built before the Titanic's maiden voyage); major portions of the Corridor's electric power supply system were installed in the 1930s; and signal systems rely on decades-old installations. Despite the age of the Corridor's infrastructure, the demand for passenger rail services continues to increase dramatically.

To illustrate this point, Amtrak's share of the air/rail market has increased from 37% to 75% for trips between New York and Washington since the introduction of Acela service in 2000 and as this trend continues it increases the need for Amtrak to provide additional seats and service along the Corridor. The simultaneous rise in commuter rail services puts substantial pressure on the operational capability of the infrastructure on a daily basis. For example, Metro-North's New Haven Line will be adding significant numbers of new trains to its daily schedule to accommodate continued growth.

The fact that commuter services and Amtrak services intersect at common facilities and on shared tracks inevitably mean delays to any one service will quickly cascade and adversely affect the on-time performance of other rail services. With major segments at or near design capacity, all services that utilize the corridor are increasingly susceptible to service disruptions resulting from infrastructure failures. Without significant and sustained levels of infrastructure investment, NEC rail services will suffer.

Today, the reality is that deferring replacement of key components of the NEC is no longer an option – infrastructure inherited from past generations can no longer provide the mobility needed to support continued, robust economic growth. New investment is essential to modernize systems, reduce failures, ensure safety and reliability, and expand capacity for increased service.

In January, the Commission is releasing a report on the NEC's critical infrastructure investment needs that details specific projects in a manner that is accessible to a broad audience. Our goal is to educate the public, elected officials and other key stakeholders as to the types of infrastructure investment projects that are necessary to improve the Corridor. Input to the report was provided by Amtrak, the Northeast Corridor states, and other railroads through a collaborative process.

The process used to develop the report on critical infrastructure needs sets a foundation of partnership for these stakeholders to develop an NEC Comprehensive Infrastructure Investment Plan next year. This five-year capital program will focus on projects that must advance in the near

term to solve today's challenges while laying a foundation for future growth. The plan will document annual state of good repair needs and capacity enhancements, and outline the timing and annual funding requirements for infrastructure upgrades through 2018.

The Commission is playing a critical role in setting corridor-wide goals and engaging the Northeast states and operating railroads in the development of the NEC Comprehensive Infrastructure Investment Plan. Through a series of regional meetings, the Commission will ensure all owners and operators have the opportunity to provide revised forecasts and goals from the Master Plan for integration into the planning process. Coordination is particularly important for non-Amtrak-owned portions of the NEC, such as the New Haven Line, a 56-mile section of the NEC owned by the state of Connecticut and the New York MTA, and operated by Metro-North Railroad.

Section 212 of PRIIA also directs the Commission to develop a cost allocation methodology for the NEC that ensures that there is no cross-subsidization between intercity, commuter, and freight rail services. Our aim is for this process to set a foundation for increased federal and state investment in the Corridor's infrastructure. In return for increased state investment in the Corridor, we will explore options to address the governance of the Corridor to ensure that the states are partners in the decision-making process.

The Commission has established a Cost Allocation Committee with broad participation by states, commuter railroads, Amtrak and the U.S. Department of Transportation that is leading this effort. Our goal is to have a recommended methodology by the end of this fiscal year.

At the same time that we are making recommendations related to near-term infrastructure needs and developing a cost allocation formula, we are also engaged in activities to examine the region's long-term rail needs. The FRA, in cooperation with the Commission, the Northeast states, and Amtrak, is undertaking a Passenger Rail Corridor Investment Plan called NEC FUTURE. This program includes a Tier 1 Environmental Impact Statement and Service Development Plan with the intent of developing a plan for Northeast Corridor rail service in 2040 and beyond.

The Commission is closely coordinating with the FRA and providing supplemental research and analysis that will inform the effort. The Commission will also examine investment strategies to fund long-term NEC improvements. Our goal is that through the Commission's work and our close partnership with NEC FUTURE, we will be able to unify our members and other key stakeholders behind a long-term plan and investment strategy for the corridor.

We often ponder what might happen if we lost this invaluable resource and Hurricane Sandy gave us all a vision into the chaos that would ensue without these vital rail assets that are so critical to the economy of our region. While the details of the disruption and its impacts are still emerging, we all watched as political leaders prioritized the reconnection of rail service to get the region moving and functioning again. We should also applaud the railroad and transit employees who made heroic efforts to restore these critical services as quickly as possible.

The Northeast Corridor is a national resource and, along with the I-95 corridor, the transportation backbone of the Northeast region. However, the Corridor's current trajectory is unsustainable. The reliability of existing services is threatened by capacity chokepoints and significant state of good

repair needs. And meeting future needs due to increasing demand for commuter, intercity, and freight service is simply not possible without significant investment in new capacity.

If our region is going to continue to grow and remain an international economic powerhouse, we are going to need to make the necessary investments in our highway, rail and aviation infrastructure to allow us to continue to compete internationally for businesses and knowledge workers.

The members of the Northeast Corridor Commission are committed to working together and with Congress and other stakeholders to ensure that the Northeast Corridor is up to the challenges of the future. We are dedicated to informing sound policy development, providing a centralized means to generate input about the future of the Corridor, improving communication among NEC stakeholders, and bringing the region together behind a unified vision through coordinated regional leadership.

To sum up, we are planning for the future at the same time that we are looking to address the very significant challenges that the Corridor is facing today.

On behalf of my fellow commissioners, in closing I would like to extend our appreciation for this committee's strong support for the Northeast Corridor and we look forward to continuing this partnership. In particular, I would like to thank you Chairman Mica for your support during your tenure leading this committee.

Thank you for the opportunity to testify today.

QUESTIONS FOR THE RECORD
TO
THE HONORABLE JOAN MCDONALD
CHAIRMAN, NORTHEAST CORRIDOR INFRASTRUCTURE AND OPERATIONS ADVISORY COMMISSION, AND COMMISSION OF THE NEW YORK STATE DOT
FROM
THE HONORABLE CORRINE BROWN
RANKING DEMOCRAT, SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
HEARING ON
"NORTHEAST CORRIDOR FUTURE:
OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION"
DECEMBER 13, 2012

1. Can you please talk a little bit about your working relationship with Federal Railroad Administration (FRA) and NEC FUTURE? Specifically, how are you working together to achieve the same goals and how are you ensuring there is no overlap in your work?

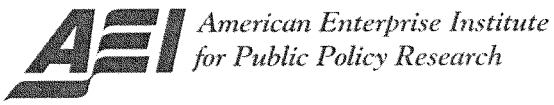
We have a strong working relationship with the FRA. Administrator Joe Szabo is a member of the Commission and we work very closely with him and his staff on a number of issues, including the NEC FUTURE process. The Commission's Corridor Planning Committee meets with the NEC FUTURE team regularly to ensure continued coordination of our work and a number of our products, including a highway intercept survey currently underway, will inform their work. At the same time, the Tier 1 environmental impact statement (EIS) and the service development plan (SDP) completed by the NEC FUTURE team will serve as the foundation for the Commission's work in the coming years as we seek to unify the members of the Commission behind a long-term plan and funding strategy for the Corridor. Based on our experience so far, we are optimistic that our close working relationship will continue and our efforts will be complementary.

2. We are likely going to reauthorize the Passenger Rail Investment and Improvement Act next Congress. What issues would you recommend we address in a reauthorization bill?

We do not have any specific recommendations on PRIIA reauthorization at this time, but will be happy to follow up with you to discuss reauthorization and provide recommendations. There is no doubt that securing the funding necessary to bring the Corridor to a state of good repair is an essential foundation to the ongoing discussions about long-term visions. A secure long-term source of capital funding to address the Corridor's critical infrastructure needs is essential if the Northeast Corridor is to continue to serve the region's commuter, intercity, and freight rail needs.

3. We received a copy of your Final Draft Report on the Critical Infrastructure Needs on the Northeast Corridor. Can you please talk a little about this report and where you go from here?

The report is a resource for anyone interested in learning more about the challenges that the NEC faces. Its development resulted from a series of regional meetings held in early 2012 between the states, Amtrak, and commuter railroads through which we created a list of unfunded, high-priority, joint-benefit projects that need to move forward to address near-term state of good repair and capacity issues on the Corridor. The Commission endorsed this list last spring. The report details each of these projects, identifies where the project stands in the planning, engineering, and environmental review process, and estimates the project's cost. We plan to transmit the report to Congress as part of our annual recommendations. However, the report does not constitute a formal planning process. Our task for 2013 is to bring together Amtrak and the other operating railroads to develop a five-year capital plan that realistically phases investment in the Corridor.



Testimony before the
House Committee on Transportation and Infrastructure

"Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation"

R. Richard Geddes

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and

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Cornell University

December 13, 2012

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Chairman Mica, Ranking Member Rahall, and distinguished Members of the Committee:

Thank you for the opportunity to submit testimony to the House Transportation and Infrastructure Committee hearing entitled, "Northeast Corridor Future: Options for High-Speed Rail Development and Opportunities for Private Sector Participation." I am R. Richard Geddes, Associate Professor in the Department of Policy Analysis and Management at Cornell University, Visiting Scholar at the American Enterprise Institute, and Director of the Cornell Program in Infrastructure Policy.

I am pleased that the Committee is examining opportunities for increased private sector participation in the delivery of passenger rail transportation services in the Northeast Corridor (NEC). Increased private participation has the potential to significantly improve the overall experience of passengers traveling on the NEC as well as the value realized by American citizens from this critical asset. Increased private participation is not a panacea but, if properly implemented, can be an important part of the solution to the problems that continue to plague passenger rail transportation in the United States. Social benefits stem from three main qualities associated with private participation: (i) high-powered, focused incentives to maximize revenue and minimize cost; (ii) business acumen, knowledge, and experience; and (iii) fresh resources in the form of access to debt and equity capital markets.

Those benefits of private participation are currently being realized in many aspects of the U.S. transportation sector. For example, the entire U.S. freight rail system can be viewed as a large, multi-faceted public-private partnership (PPP). The public sector there provides right of way and creates the institutional setting, while freight companies finance, maintain, and operate tracks, signaling, and rolling stock. Private expertise and resources have long been used to design and build highways, bridges, and tunnels in the United States. Private partners are increasingly also called upon to finance and operate major facilities such as toll roads and HOT lanes. Private firms are now operating large urban bus systems and are making even larger contributions in providing transportation services in many developed and developing countries. Private participation through PPPs is also significant in other U.S. network industries, such as water, sewerage, and energy.

PPPs are the main vehicle for incorporating private investment into the provision and operation of infrastructure. It is thus useful to define PPPs in general. The term PPP refers to a contractual relationship between a public-sector project sponsor and a private sector firm or firms coordinating to provide a critical public good or service. A PPP is subject to the standard rules of contracting, with clear performance standards. It is useful to think of a PPP as one application of a broader contracting approach.

There are many ways in which private participation through PPPs can improve social welfare by playing a greater role on the NEC. Private participation can enhance social welfare by creating

new types of service, by improving the quality of existing service, and by lowering the cost of providing a given service. It is useful to distinguish between two main ways in which private partners can participate in providing transportation services. Private investors can be called upon to make substantial, sunk investments in transportation infrastructure, such as in tracks, yards, right-of-way, signaling, etc. on which they require assurances of a rate of return over time. After investing, private partners often also maintain and operate the infrastructure and rolling stock. Institutional arrangements in this case must be designed to make such long-term investment rational in the first place.

In the second case, private partners contribute by bringing capital, focused incentives, and expertise to the management of existing transportation assets. Although substantial investment in technology, upgrades, and renovation may be required, policy in this case is typically less concerned with ensuring the security of investment returns over the long term than on capturing the social benefits of private innovation and expertise in managing existing assets. It is important to stress that, in all cases, actual ownership of transportation assets remains with the public sector, and under improved public control through transparent contracts that articulate clear, enforceable performance standards. I focus on the role of private participants in this second capacity because many of the long-lived assets required to operate the NEC are already in place.

Increased private, for-profit participation may not be appropriate in all services the government provides. There is a consensus in economics that private participation may not be efficient where contracting with a private partner is complex and costly due to the inability to oversee – or monitor – the quality of service provided. To provide a possible example, one may be concerned about contracting out the operation of a wildlife sanctuary to a private firm for fear that the private operator would not maintain the environment in the sanctuary to a certain socially desirable standard, which may difficult to monitor. Stated differently, the quality of the wildlife's environment could be very costly to contract over because it is difficult for the public contract sponsor to observe.

Because they involve "hard" assets, the types of activities being consideration for increased private participation on the NEC are, however, precisely those activities where the private partner's performance is readily observable. They can be provided for in a contract with measureable performance metrics. Private participation on the NEC is thus likely to improve social welfare substantially. Those gains can be captured for all citizens though upfront concession payments, as I describe below.

Opportunities for Value Capture on the NEC

The NEC is composed of a rich array of valuable transportation assets, many of which are underutilized under existing arrangements. The incentives, expertise and resources associated with private participation allow for that substantial latent value to be both enhanced and captured.

Competitive concession bidding is the key mechanism through which such latent value can be realized. For example, the substantial value inherent in improving the management, maintenance and operation of a single station on the NEC can be extracted by requiring potential private partners (which may include a consortium of firms, as well as sub-contractors) to bid on the basis of the largest upfront concession payment they will offer. This endows the private partner with high-powered incentives to enhance the station's value as much as possible, since it becomes the *residual claimant* to any value created. A *residual claim* refers to the explicit property right to capture the profits from an economic activity. The concepts of residual claims and residual claimants are critical to understanding how private participation will generate enhanced value from NEC assets.

A private residual claimant can generate additional value from station operation in many ways. A private operator has the incentives, skills and resources to realize the greatest value possible from the station. This can be done through both revenue enhancement and through cost reduction. The partner may be able to increase revenue through more intensive use of concessions for food and beverage service, concessions for shops, through waiting-room naming opportunities, waiting-room bench-naming opportunities, and development opportunities near stations, among many other possibilities. Through restoration and innovation, revenue opportunities can take advantage of the historic nature of the NEC's critical infrastructure facilities, some of which predate the First World War. The key insight is that, by creating well-defined residual claimants and requiring them to bid against one another for station operating rights, upfront concession payments allow society to immediately realize the new value created.

A recent highway transportation example is illustrative. In January 2012, the Maryland Transportation Authority announced approval of a 35-year PPP concession for the redevelopment and operation of two travel plazas (Maryland House and Chesapeake House) on I-95 in Northeast Maryland. As an illustration of the private sector's access to capital, the concessionaire, Areas USA, will invest $56 million to redesign and rebuild the aging travel plazas. The State will receive an estimated $400 million in added revenue over the life of the concession.

The travel plaza PPP came on the heels of Maryland's PPP agreement with a private partner to renovate and operate the Seagirt Marine Terminal in Baltimore. Under that agreement, The Maryland Port Administrated leased its 200-acre marine terminal to Ports America. In return, Ports America will build a container berth with a 50 foot depth. This will allow the Port to accommodate ships with a larger draft, which will attract more shipping. The Seagirt PPP received the North American Logistics Deal of the Year Award for 2010.

A third example is provided by the PPP completed in June 2011 between Violia Transportation and Nassau Country, New York to manage and operate all aspects of its transit service, which includes almost 300 buses and 180 para-transit vehicles. With a population of 1.3 million people, the Nassau County system is now the nation's largest privately operated municipal bus service. Although the PPP is relatively new, the early assessment is positive, and holds

important lessons for the NEC. Buses are cleaner and more reliable due to a renewed emphasis on service quality and on customer needs. Enhanced reliability has generated greater ridership. Violia adopted a new website, and developed an innovative logo and visual style for Nassau's buses. Improvements have occurred without hurting passengers. Fares were not increased and routes were not eliminated. Because of its operational focus, the Nassau bus contract has been termed a public-private operating partnership, or PPOP.

In each of the above cases, the use of a PPP identified and tasked skilled, motivated, well-defined residual claimants with an incentive to maximize facility value. The citizens of Maryland and New York will share in the value created by private partners. A similar approach can be applied on the NEC.

Opportunities for contracting operations, improvements, expansion, and management of NEC facilities occur at different levels in the delivery process. The public PPP sponsor must decide how broadly versus how deep into the process it wishes to contract. At the highest level, operations, maintenance, and expansion of the entire NEC, including all train operations, could be contracted to a single private entity, which may represent an allied group of firms. Although the resulting contract would likely be complex – and must be monitored and overseen with care – citizens would share in the massive value created through one large upfront concession payment for the entire line. Because of the inherent value of the transportation alternative provided by the NEC, such a payment would likely dwarf concession fees realized through other recent U.S. transportation PPPs.

The public sponsor could instead undertake private participation farther down into NEC's operations. For example, station management could be competitively bid through a single management contract, with the management of ticketing, for example, undertaken through a separate entity. Still farther into operations, the management of on-board food and beverage services, as well as in-station food, beverage, and newsstands could be competitively awarded through a different PPP. Additional on-board revenue opportunities include advertising on rolling stock, and advertising along the route. Increased private participation presents numerous clear opportunities to capture additional value from existing assets. The key decision is how far into process details it is efficient for the public PPP sponsor to execute and monitor contracts on the NEC versus how much it would like to delegate those responsibilities.

Value Revelation Through PPP Bidding

A key insight from the economics literature on PPPs is that it is impossible to know the value inherent in an infrastructure asset such as the NEC until its operation is subject to market bidding. That is, in addition to value capture, a key purpose of conducting competitive PPP bidding is to reveal the true value of the assets in question. It is also difficult to forecast concession value because the effects of new technology implementation that often accompany private participation on both revenue opportunities and on cost reduction are virtually unknowable until they are implemented.

This insight is highlighted by the fact that state and local governments are sometimes surprised by the large size of the upfront concession fees they are offered for brownfield PPP leases of highway assets, indicating that those assets were more valuable than previously thought. As an aside, value under-estimation often leads to under-investment in asset maintenance, which has plagued many U.S. transportation assets.

Importantly, this analysis implies that the role of the public sector changes as private partners' role grows. The public role shifts from being a *service provider* to being a *designer and monitor of contracts* with private partners. Like any business, the public sector must decide where its core competency lies. There is little reason to believe that train station operation, for example, is a core government competency.

An objective assessment of which aspects of the NEC lie within the government's core competency as a service provider should be undertaken, and those aspects that are not core public sector competencies contracted to private partners who are expert in those activities. Once non-core competencies are determined, the public sponsor may need to develop additional skills in contract design, monitoring, and enforcement.

An added social benefit of the PPP approach that increases value is simply that a contract exists. The contract includes details regarding what actions constitute adequate performance. The PPP approach thus encourages the public sponsor to reflect upon, and articulate, what specific actions by the private partner constitute excellent, or poor, performance. This may include metrics about major issues, such as the reliability and frequency of train travel, but also more detailed considerations such as the cleanliness of cabins, restrooms, and dining cars. The PPP approach thus improves the public's control over NEC assets by introducing a transparent, enforceable contract into its operation.

NEC Value Improvements Generated by Cost Management and Risk Assumption

An additional way in which citizens are able to realize added value via PPP concessions on the NEC is through the private sector's greater incentives, resources, and skill in managing costs. Critically, such cost savings will be realized by citizens through a larger upfront concession payment. A lower cost of service may also depend on access to capital markets, since the social benefit of new technology often manifests itself through lower costs for the same type and quality of service.

A final, frequently stated social benefit of including private partners is risk assumption. Train operations on the NEC are inherently risky. This includes operational risks, such as bridge or tunnel problems, but also financial risk associated with changes in ridership. Under the current approach in the United States, taxpayers assume virtually all the risks associated with designing, constructing, operating, and maintaining passenger rail systems. In a PPP, some of those risks can be allocated to the private partner, reducing taxpayer risk. Because private investors are typically expert in risk bearing, this is an important benefit.

One of the hallmarks of the PPP approach is it's inherently flexibility. The range of ways in which private participation can be incorporated on the NEC appears to be limited only by the creativity of the contracting parties. For the reasons I outline above, private participation in the provision of passenger rail service in the United States through PPPs should be encouraged.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION

TESTIMONY
OF
J. PERRY OFFUTT

MANAGING DIRECTOR

MORGAN STANLEY & CO. LLC

DECEMBER 13, 2012

Good morning, Mr. Chairman, Congressman Rahall and members of the Committee. It is my pleasure to be here this morning.

My name is Perry Offutt. I am a Managing Director in the Investment Banking Division of Morgan Stanley and am the Head of Infrastructure Investment Banking for the Americas Region. My group works with both public and private sector clients seeking opportunities for private capital to finance or invest in infrastructure projects. Many of the transportation projects on which I work are structured as public-private partnership ("P3") transactions, as defined below. For example, I recently advised on the following transactions:

1. Bid to acquire RailAmerica (operator of short-line and regional railroads in the US); represented the cover bid on this transaction (closed in 2012)
2. Sale of Landmark Aviation (third largest FBO in the US) to The Carlyle Group (closed in 2012)
3. Monetization of The Ohio State University parking system via a long-term lease to an Australia infrastructure investor (public-private partnership closed in 2012)
4. Bidder on the concession of Puerto Rico's Luis Munoz Marin International Airport (public-private partnership expected to close in Q1 2013)
5. OHL Concesiones / Morgan Stanley Infrastructure Partners on their bid for the concession of Puerto Rico's PR-22 and PR-5 toll roads (public-private partnership closed in 2011)
6. City of Indianapolis on concession of City metered parking system (public-private partnership closed in 2010)
7. City of Pittsburgh on $452 million proposal for concession of City parking system (public-private partnership suspended after a city council vote in 2010)
8. Citizens Energy Group on $1.9 billion acquisition of Indianapolis water and wastewater system (closed in 2011)

9. Morgan Stanley Infrastructure Partners on its acquisition of NStar's district energy operations (closed in 2010)

As a financial advisor focused on P3 transactions, I appreciate the opportunity to share my perspective on some of the key considerations that could affect interest from the private sector (including financial investors, construction companies and rail operators) in participating in the design, construction, operation, maintenance and financing of a high-speed rail project along the Northeast Corridor (the "Project").

Public-Private Partnerships

A P3 involves a long-term lease (not a sale) of municipal assets (the "Concession"). The specific operating standards and business terms (e.g., duration of the lease, fare schedule) are included in a contract between the public agency/government and a private sector entity (the "Concession Agreement"). The government retains ownership with a right to reclaim the assets if the private investor does not meet certain operating standards. Such an arrangement transfers significant risks and responsibility from the government, as well as make great use of private sector expertise.

Due to the many safety and security concerns associated with high-speed rail, it is essential that all potential private partners undergo an extensive evaluation of their qualifications. Such an evaluation is typical in P3 processes. Traditionally, the procuring government entity will issue a Request for Qualifications ("RFQ") that requires private bidding groups to submit a response listing their qualifications in the areas of design, construction, operations and maintenance, as well as describing their ability to finance construction and improvements, as necessary. In order to be considered as a bidder for a P3, a private party needs to pass all criteria in this qualifications phase. Consequently,

the government controls which private bidding groups are able to submit a final bid for a P3 project.

How could a P3 work for high-speed rail?

P3 structures have been used for new construction projects (i.e., "greenfield" projects). The private sector can often build a project more quickly and at a lower cost; drive efficiencies over time by introducing technology solutions; and develop incremental revenue sources by delivering additional services.

In the case of the Project, the government entity would enter into a Concession Agreement with a private entity with the skills to design, build, operate, maintain and finance the proposed Project. Given all of these requirements, the private entity is typically a consortium of various corporate and financial entities.

For example, when the state of Florida considered a P3 procurement for the Tampa-Orlando phase of the Florida High-Speed Rail Project, the following consortia formed to respond to an RFQ:

- Bechtel, Amtrak and SNCF
- Siemens, Veolia, Global Via, FCC, Granite, Jacobs and Skanska
- Soares de Costa, Ferrovial Agroman, Talgo, Cintra, Prince and Invensys Rail
- Parsons, Samsung, Korail, KRTC, GRDC, KRRI, Korea Railway Association and Hyundai Rotem
- Balfour Beatty Rail, HDR, Parsons Brinckerhoff, PCL Civil Constructors, Lane Construction, Mitsubishi International, Central Japan Railway Co., Sumitomo Corp. and Japan Bank for International Cooperation
- ACS Infrastructure Development, Dragados, T.Y. Lin International, GE Transportation, TSDI, CSR SF China, CRCC China and Odebrecht

- Alstom, Vinci Concessions, OHL PBS&J, AECOM, Hubbard Construction, Archer Western Contractors, Virgin Group and Virgin Rail Group

As demonstrated above, there are many entities interested in high-speed rail in the U.S. given their existing experience operating high-speed rail systems internationally such as in Europe and Asia. In addition, many U.S. and international construction firms will have interest in partnering with high-speed rail operators; such firms would play an integral role in the design and construction of the proposed rail line and could also be equity investors in the Project.

While there has not been a P3 involving a U.S. high-speed rail project, there are many examples of successful P3s for greenfield projects. For example, in Florida the State has entered into a P3 to reconstruct the I-595 toll road and a P3 to build a new Port of Miami Tunnel. Analyzing these and other similar U.S. greenfield P3s can help provide guidelines for a P3 for the Project.

Private Capital Available for P3s

Morgan Stanley estimates that over $200 billion of private equity capital has been raised to invest in infrastructure projects. This capital is attracted to these investment opportunities given the potential to achieve long-term stable cash flows and attractive risk-adjusted returns for the project. Many of these funds (typically pension or infrastructure funds) have the ability to invest in various geographies around the world and across various infrastructure verticals (e.g., transportation, regulated utilities and energy). As mentioned above, besides typical financial investors, many of the potential

operators and construction companies also may be willing to make an equity investment given the high profile nature of the Project.

Given that private capital can focus on a variety of areas outside US transportation infrastructure, it is important to demonstrate that a project is commercially/financially viable and has political support. Attracting the private sector as a partner can both leverage public funds and deliver a superior outcome for the project. However, it is worth noting that the equity contribution from private investors tends to be approximately 10-15% of the total project cost given its cost of capital. Grant and low-cost funding sources (e.g., RRIF and TIFIA loans), if available, are utilized first. For example, The Port Authority of New York and New Jersey recently issued an RFQ to the private sector to design, build, operate, maintain and finance a new central terminal at LaGuardia Airport. In this document, The Port Authority mentioned that the equity investment could be as low as $200 million despite a total project cost of over $2.5 billion.

If the Project generates enough operating cash flow, the private partner would be compensated over time by receiving the revenue generated by fares from passengers. These revenues might also include ancillary revenues from advertising, food/beverage service and real estate rents.

If the Project does not generate enough annual revenues to cover operating costs (which is true for most passenger rail projects), consortiums will require a revenue guarantee or an ongoing revenue supplement from a government entity (know as an "Availability Payment") to ensure that they are able to cover their costs and earn an adequate return on investment. Of course, bidders will not include any positive

externalities associated with passenger rail (e.g., lessening airport/highway congestion to improve regional/local commerce and environmental impact) in their analysis. Therefore, consortiums would be asked to submit the lowest required ongoing Availability Payment to design, build, operate and maintain the Project.

If the ridership revenue reaches a certain level immediately or over time, the Availability Payment could go away and the Project revenues would go directly to the private investor. As a result, the Availability Payment could be structured as a floor to support an investment-grade financing base case and attract maximum private investor interest.

For example, the Florida government was able to complete the following P3 transaction utilizing an availability payment structure:

> In October 2009, the Florida Department of Transportation ("FDOT"), in conjunction with the City of Miami and US DOT, reached financial close for the Port of Miami Tunnel and Access Improvement Project. This P3 project involves the construction of a tunnel under the Port of Miami at an estimated project cost of approximately $900 million (financed with public and private capital). The winning bidder (Meridiam and Bouygues) proposed providing $80 million in equity upfront plus helped arrange $342 million of senior financing with project finance banks. Other funding was provided by a TIFIA loan. In addition, FDOT pledged to make "milestone" payments throughout the construction process, followed by Availability Payments following completion. These payments from FDOT helped provide the winning bidder with comfort that, despite uncertainty around the total traffic in the tunnel, the government was willing to serve as a 'buffer' for future traffic risks. Depending on the specific projected cash flows of the project, this may or may not be needed.

Given the existing passenger rail footprint in the Northeast and high population density in key urban areas, the Project would likely generate significant interest from many private entities and should be a profitable operation. Private investors would particularly like the fact that there is significant historical information on passenger traffic due to the existing rail traffic in the Northeast Corridor area and flight traffic between Boston/New York and New York/Washington, D.C., which will allow them to make better estimates about potential ridership.

As I previously mentioned, one of the primary reasons to enter into a P3 for the Project is to transfer risks of construction and operations to the private sector. However, private investors will also expect some comfort from the government on a few large risks associated with the Project.

First, private bidders will need to understand exactly how any cost overruns will be addressed in the Concession Agreement, especially if they result from events over which the bidder has little to no control.

Second, private investors will carefully evaluate the ridership estimates and ongoing cash flow potential to ensure that it will allow for an adequate return on their investment. If the revenue projections are not adequate, many private bidders may look for a form of Availability Payments to help ensure that they are not losing money by operating the Project. Having a compelling investment-grade traffic study from a reputable source will be critical to help the private sector assess this risk.

Third, private bidders will want to understand key policy considerations. For example, the choice of station locations and plans for competing transportation infrastructure will affect the feasibility of the business plan. Potential investors will be

focused on the "non-compete" provisions in the Concession Agreement which will dictate what parties to the contract can do in terms of competing actions (e.g., funding improvements to alternative modes of transportation along the Northeast Corridor).

Fourth, investors will also be very focused on the risks associated with the environmental studies and the required permitting. To the extent that these risks can be mitigated before a P3 procurement, this would materially improve the procurement process.

Fifth, convincing the private sector that there is political will to complete the P3. Given the high costs to reach a binding bid (i.e., significant due diligence costs), private capital focuses early on the regulatory/political approval process. Any additional Federal/State/local support (both monetary and political) would be very helpful to minimize this risk.

Thank you very much for the opportunity to testify here this morning on this very important topic. I would be glad to answer any questions that you may have.

QUESTIONS FOR THE RECORD
TO
MR. PERRY OFFUTT
MANAGING DIRECTOR - HEAD OF INFRASTRUCTURE BANKING FOR THE AMERICAS, MORGAN STANLEY
FROM
THE HONORABLE CORRINE BROWN
RANKING DEMOCRAT, SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
HEARING ON
"NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION"
DECEMBER 13, 2012

1. Do you believe that a dedicated source of funding from the federal government for high-speed and intercity passenger rail would help attract private investment? Without it, would private investors still be interested in investing in passenger rail in this country?

Given the high capital costs to build high-speed rail and intercity passenger rail, I believe such projects would require significant funding support from the Federal government via grants and/or low-cost financing (i.e., the RRIF loan program). Therefore, I do believe that Federal funding support would help attract private investment and that there would not be interest from the private sector without it.

2. You mention the many consortiums of private entities that came forward with an interest in the Florida high-speed rail project before it was cancelled. Under the Passenger Rail Investment and Improvement Act of 2008, Congress created a process for DOT to request proposals from the private sector to finance high-speed rail service in certain corridors, including the Northeast Corridor. If the private sector is so interested in development of high-speed rail in the Northeast Corridor, why then did no one submit a proposal to DOT for private sector development of high-speed rail on the Corridor? Are you aware of any private consortiums that had any interest in submitting a proposal? Who? If so, why did they not submit?

Private investors tend to prioritize transactions that they view are actionable and have a high probability of closing. As a result, it is often difficult to encourage the private sector to respond to requests for expressions of interest on a project unless investors are convinced that it will lead to a formal public-private partnership procurement process.

My understanding is that 80 parties initially expressed interest in January 2009 to the request issued as part of the Passenger Rail Investment and Improvement Act of 2008. However, I assume that the private sector wanted more clarity of the potential transaction before spending the time and money required to formally submit a proposal for this expression of interest request. That would explain why only one firm (SNCF) responded formally. As you may recall, SNCF's response was very detailed (approximately 1,000 pages long).

In contract, when teams were forming to pursue the potential high-speed rail transaction in Florida, the private sector was told that there was enough government funding to build phase 1 of the project and that reputable financial and legal advisors had been retained by FDOT to manage the procurement process. This was enough for the private sector to start getting prepared for a potential Request for Qualifications from FDOT.

Therefore, I still believe that the private sector remains interested in passenger rail projects that are economically viable and that have a clearly defined procurement process. However, without being able to demonstrate that both of these criteria are met, the private sector will not spend considerable time or money on such a project.

Testimony of John P. Tolman
Vice President & National Legislative Representative
Brotherhood of Locomotive Engineers and Trainmen
Before the House Committee on Transportation & Infrastructure Hearing on
Northeast Corridor Future: Options for High Speed Rail Development and Opportunities for Private Sector Participation
December 13, 2012

Good morning, Chairman Mica and Ranking Member Rahall, and Members of the Committee. My name is John Tolman and I am the Vice President and National Legislative Representative of the Brotherhood of Locomotive Engineers and Trainmen, which is a Division of the Teamsters Rail Conference. On behalf of more than 36,000 active BLET members and over 70,000 Rail Conference members, I want to express my thanks for the opportunity to provide the Committee with our position on high-speed rail, and particularly the development of the Northeast Corridor.

I also want to take this opportunity to thank Chairman Mica for his service to this committee; it is an honor to testify at your final hearing as the Chairman of the T&I Committee. I have appeared before this body on several occasions and have always enjoyed your comments and questions, and I look forward to continuing to work with you and incoming Chairman Shuster in the 113th Congress.

My remarks today will focus on some of my personal experience as a locomotive engineer on Amtrak as well as my Organization's position on the progress Amtrak has made on the Northeast Corridor.

I will give some comparisons with other countries' passenger rail and high-speed service as they relate to privatization. Finally, I will conclude by talking about Amtrak and passenger rail successes on the Northeast Corridor and some added cost savings information about high-speed rail travel when compared with other modes of travel.

Personal Experience

I would like to first talk to you about my personal experience as an Amtrak Engineer.

I was an Amtrak engineer operating trains in the Northeast Corridor from the mid-1970s to early 1990s. From its inception, I remember Amtrak being chronically under-funded.

I also remember coming down here to lobby as a young man some two decades ago to try to secure funding to preserve safe and reliable rail passenger service and to save the jobs of my fellow professional and highly skilled workers. Now, more than 20 years later, I am still fighting that fight.

I remember running a train from New Haven, Connecticut, to Boston in a blinding snow blizzard, working with the most professional train dispatchers, trainmen and track maintenance professionals to get the riders to their destinations as safely and

efficiently as possible. Thanks to a real team effort, we were a little late but all were safe.

I remember running test trains at 150 mph with a SD 40 diesel locomotive that was close to 20 years old and passenger cars that were 30 years old. I witnessed the growth and improvements in Northeast Corridor service when the railroad electrified the diesel-powered main line, and extended the crossovers for high-speed trains.

And while Positive Train Control has made national headlines over the past few years, the fact of the matter is that Amtrak has had PTC in the NEC for over 20 years. In spite of the lack of consistent funding, Amtrak has been constantly trying to provide the best and safest service possible, testing the tracks, people and equipment to do better despite all the obstacles placed in front of them, never knowing if they would be funded or at what level.

Brief History

The Interstate Highway System was authorized by the Federal-Aid Highway Act of 1956. It had been lobbied for by major U.S. automobile manufacturers and championed by President Dwight D. Eisenhower.

Since then, we have spent billions building and maintaining one of the best highway systems in the world. The Interstate Highway system cost $114 billion and took 35 years to complete.

In today's dollars, that same system would cost $426 billion to build.

But times have changed. In 1955, there were 65 million vehicles on U.S. highways. Today, there are over 250 million. It is projected that by the year 2055, there will be at least 400 million vehicles on our highway system, further wearing out a system that is already in a terrible — and in some places hazardous — state of disrepair.

Congestion on our nation's roadways is at historic levels and will only get worse as our population continues to grow. It is projected that by the year 2020, 90% of urban interstates will either be at or over capacity.

Between 1995 and 2001, commute times over the same distance on U.S. highways increased 10%.

The Texas Transportation Institute estimates that $63 billion was wasted due to traffic congestion because of time lost and fuel used in 2005 alone.

Passenger miles on highways also increased 18.1% between 1997 and 2004. Anyone who has flown recently knows that serious problems also plague our nation's airports — flight delays and cancellations, lost luggage, overcrowded planes. Only 82% of commercial flights were on time in February 2009 and most of these delays occurred because of overcrowded airspace along the East Coast.

Comparing Countries

When you compare the level of government funding provided to Amtrak with that provided to domestic aviation and highways, and to many European and Asian countries, it frankly is embarrassing. As APTA[1] has pointed out:

> "As to the French TGV and the Japanese Shinkansen, there have been many valuable lessons learned from which the United States will benefit as we go forward. The most important of these lessons that the critics acknowledge but refuse to accept is that passenger trains, if allowed to compete in an even environment with other modes, can cover their costs and in some instances even turn a profit."

It is clear that in other parts of the world, privatization of high speed and passenger rail comes with many problems that privatization itself portends to solve. However, systemic safety and reliability problems have led to reversals that caused much upheaval in transportation systems in Great Britain and New Zealand, who were forced to re-nationalize their systems. But there is one factor that undeniably common to all these experiences: funding cuts are the precursor to privatization schemes.

High Speed Rail Profits and Amtrak's Northeast Corridor

Profitability is always a factor in structuring investments in high-speed rail. An APTA report from July 2012 showed that continuing high-speed passenger rail in-

[1] American Public Transportation Association.

vestments will generate $24.6 billion in net economic benefits over the next forty years.[2]

In fact, Amtrak is more than competitive with airlines in the Northeast Corridor on routes from Washington, D.C. to New York — where it has a significant majority of the market — and from New York to my home town in Boston. Indeed, the growth in Northeast Corridor ridership since Amtrak's inception is an achievement of which any transportation carrier would be proud.

For example, in New York to Boston route alone, market share has *more than doubled* since Amtrak introduced high-speed electrified service in 2000.

Amtrak Compared to Other Modes of travel

Amtrak now carries more riders on this route than all of the airlines put together. And between Washington, D.C. and New York City, Amtrak carries *more than twice as many passengers* than all of the airlines combined. Since introducing its Acela service, Amtrak has almost *tripled* its air/rail market share on the NEC, and today carries 75% of intercity travelers between New York and Washington.[3]

Besides being in head-to-head competition, we agree with Amtrak that high speed rail and airlines also complement one another in providing safe, fast and efficient travel to the public.[4] And this hybrid interaction is not limited to comparing rail travel with air travel.

These same benefits also apply to automobile travel. The United States Department of Transportation (DOT) notes that a diversion of intercity automobile traffic to rail would have a dramatic impact on the ability of states and localities to maintain their roadways, and also would significantly alleviate roadway congestion. This will be a critical factor in determining where to make future investments on upgrades to our transportation infrastructure.

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[2] "Opportunity Cost of Inaction High Speed Rail and High Performance Passenger Rail in the United States: http://www.apta.com/resources/reportsandpublications/documents/HPPR-Cost-of-Inaction.pdf

[3] Amtrak, "State-Supported Corridor Trains, FY2011-2012," April 2012.

[4] Amtrak NEC Briefing.

Some fifteen years ago DOT estimated the savings just from reduced highway delays range from $489 million to $2.9 billion annually, depending on the corridor. Those are savings that would be forgone without appropriate investment in high-speed passenger rail.[5] Another advantage to the nation, as a whole, is the fact that our trains consume 20% less energy per passenger mile than airlines and 30% less than automobiles. In other words, investment in high-speed passenger rail service is a key element in promoting energy independence and reduced emissions in America.

We think that Amtrak's long-term plan for the Northeast Corridor provides a template for a public/private partnership that is worth discussing. And we believe that a partnership that does not subordinate the public interest — or the interests of BLET and Teamsters Rail Conference members — to private investment goals will both improve service and provide the traveling public with greater transportation choices for decades to come.

The BLET will continue to seek opportunities to work with this Committee and federal agencies on legislative and regulatory priorities that strengthen passenger and high-speed rail, including Amtrak, as a normal course of our activity. Once again, I thank Chairman Mica and Ranking Member Rahall and the Members of the Committee for the opportunity to address you today.

[5] High Speed Ground Transportation for America," U.S. Department of Transportation, September 1997.

QUESTIONS FOR THE RECORD
TO
MR. JOHN TOLMAN
VICE PRESIDENT & NATIONAL LEGISLATIVE REPRESENTATIVE, BROTHERHOOD OF LOCOMOTIVE ENGINEERS AND TRAINMEN, TEAMSTERS RAIL CONFERENCE
FROM
THE HONORABLE CORRINE BROWN
RANKING DEMOCRAT, SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
HEARING ON
"NORTHEAST CORRIDOR FUTURE:
OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION"
DECEMBER 13, 2012

1. In your testimony, you mentioned that in other parts of the world systemic safety and reliability problems have led to reversals of the privatization of high speed and passenger rail, forcing some nations to re-nationalize their system. What sort of safety problems arose under a private railroad operator?

   Perhaps the most obvious example of the problems resulting from privatization was Great Britain. When the system was split apart in 1994, numerous problems resulted, including safety problems which did not previously exist, and garnered worldwide attention. The fragmentation of responsibility for safety and oversight created a situation where operation was less safe, particularly during the transition periods. A 2000 derailment at Hatfield on track that had known defects, which killed four persons and injured over 100, was attributed by an independent investigative board to the private infrastructure owner, Railtrack, "failing to control [its] contractors [and] losing control over the condition of track." The disruption in rail service that followed the derailment triggered a national crisis and major increases in public funding were required to remedy the unsafe conditions exposed by the derailment. The fragmentation of the system has also not significantly reduced the government subsidies. During the 10-year period from 2001-02 to 2010-11, Great Britain's government spent the equivalent of $64.8 billion U.S. at current exchange rates on its passenger rail system – an average of approximately $6.5 billion U.S. a year in a country that is one fifth the size of the United States.

   There is widespread agreement that the Britain's system of funding and franchising rail operations requires significant reforms. The ruling Conservative Party, which was responsible for privatization, has acknowledged that changes must be made. A recent study commissioned by the Labour Party, Britain's official opposition party, concluded that rail operations and infrastructure should be reintegrated and franchising phased out.

   Another example is New Zealand. New Zealand privatized its entire rail system, which included a small number of intercity trains, in 1993. A consortium led by Wisconsin Central, a U.S. railroad, acquired the rail network and operations, which it operated under the brand TranzRail. Financial performance, productivity and tonnage of the freight service that accounted for the majority of New Zealand's rail operations initially improved following

privatization. However, due to inadequate investment and increased truck competition, infrastructure conditions and financial performance of the privatized rail network ultimately deteriorated. The government agreed to reacquire rail infrastructure ownership and maintenance responsibility in 2003, and in 2008 the railroad was fully renationalized.

2. This Committee continues to have hearing after hearing criticizing Amtrak. In fact, this is essentially the third hearing in three weeks doing so and the fourth hearing this Congress on privatizing the Northeast Corridor alone. What kind of impact does this have on your employees and morale?

   My personal opinion is that the Committee should spend more time in trying to help Amtrak improve. In spite of all the negative hearings, I feel we should move toward proper funding to make it more competitive to other modes. Amtrak and its workers have done a great job over the years with very little funding. This lack of funding has caused instability within the organization, and that in turn has over the years perhaps triggered a feeling of instability among the members I represent.

3. Prior conversations as well as draft legislation before our Committee has contemplated dismantling Amtrak and allowing a private operator to take over the NEC this proposal, private operators who take over passenger rail routes will not have to cover its workers under the Railway Labor Act, Railroad Retirement and Unemployment Compensation, and similar laws. What concerns do such proposals raise for labor?

   Labor has fought hard and long to work toward creating a good railroad on the NEC, and Amtrak's employees have sacrificed long and hard to help Amtrak grow and survive. The draft legislation previously considered by this Committee would be a slap in the face of all the workers who have helped Amtrak and suffered along with Amtrak through the underfunding. Amtrak was created because the freight railroads decided they could no longer profitably run passenger service. Amtrak has been continually underfunded since that time but its workers have stuck by it through thick and thin.

   The proposed legislation would have taken away basic rights and protections that cover current Amtrak workers once the conversion to private operation of Amtrak's Northeast Corridor or off-corridor services occurs. The proposed bill dictated that the private entities providing rail service are considered rail carriers "**only** for purposed of title 49, United States Code." But other important laws and protections for rail workers, such as Railroad Retirement Act, the Railway Labor Act (RLA) and most other statutes that would normally apply to rail carriers and their employees, are not in Title 49 but elsewhere in the law. This means that because rail workers working for new private carrier would not be covered by the RLA, they would lose current rights to bargain collectively. The proposed bill also excluded rail workers employed at the new rail carriers from coverage under the Railroad Retirement pension system. Workers and current and future retirees would therefore lose pension rights,

unemployment compensation payments and occupational disability coverage. All of the other interstate rail carriers and their employees, including Amtrak, freight and commuter providers, are covered by this system. Not only would removing workers of new privately run rail carriers from Railroad Retirement be devastating to current workers and their families, but it would jeopardize the solvency of the Railroad Retirement fund and the security of its beneficiaries. By eliminating an entire class of employers or employees from Railroad Retirement, payroll taxes would have to be increased, benefits curtailed or both.

4. Chairman Mica claims that all employees would be protected under his proposed legislation? Do you agree with that statement? Why or why not? What would be the impact of his proposed bill, the "Competition for Intercity Passenger Rail in America Act?

   Unless Chairman Mica is buying the railroad, there are no guarantees that all employees would be protected. In fact, his assurances do not match up to the language in his proposal because they are not provided in the actual legislation. The bill only mandated that new rail carriers provide a "hiring preference to qualified Amtrak employees." In other words, the only thing this legislation guaranteed to current employees is the right to be considered for a job in the new operating entity. "Hiring preferences" don't help workers pay the mortgage and college tuition bills. The proposal afforded workers no legal or contractual rights to follow their work or even a fair and transparent system to transition to a new carrier. Protective conditions also exist in current collective bargaining agreements, but these agreements would have no application to the new carrier.

CONEG
COALITION OF NORTHEASTERN GOVERNORS

Governor Peter Shumlin, Chair
Governor Lincoln D. Chafee, Vice-Chair
Anne D. Stubbs, Executive Director

STATEMENT TO THE RECORD
BY THE COALITION OF NORTHEASTERN GOVERNORS (CONEG)

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

HEARING ON THE NORTHEAST CORRIDOR FUTURE: OPTIONS FOR HIGH-SPEED RAIL DEVELOPMENT AND OPPORTUNITIES FOR PRIVATE SECTOR PARTICIPATION
DECEMBER 13, 2012

The Coalition of Northeastern Governors[1] (CONEG) is pleased to have this opportunity to submit a statement to the record of the Committee on Transportation and Infrastructure hearing on *Options for High-Speed Rail Development and Opportunity for Private Sector Participation*, held on December 13, 2012.

The CONEG Governors Have Long-Standing Commitment to Regional Rail

The CONEG governors have long recognized that the Northeast Corridor (NEC) network[2] – the Main Line and the connecting services – is a transportation and economic artery for this region and the nation. The network is a joint-use corridor (commuter, intercity and freight rail), with the states owning portions of the NEC and some stations. This network serves a region that is home to more than 60 million people, 80 percent of whom live within 25 miles of an existing or proposed multi-state regional rail service. It offers the intercity traveler an easily accessible alternative to congested highways and airports, as well as an option for travelers unable to drive or fly. Its extensive geographic reach and multi-modal network connections provide efficient, viable choices for the region's millions of commuters, thereby enlarging access to the employment market for both businesses and workers. Efficient and frequent service linking the region's many large and small urban areas creates a proximity and opportunity for interaction among firms, institutions and individuals that can expand the market for services, encourage greater interaction, and facilitate innovation. Throughout the Northeast, passenger rail stations are a locus for transit services and support the development of vibrant neighborhoods and local businesses. In short, the northeast region is uniquely positioned to become the American showcase for the application of advanced intercity passenger rail systems that incorporate higher speed rail segments as well as improved connectivity.

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[1] CONEG members include the governors of Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont.

[2] This network encompasses the NEC Main Line connecting Boston, New York City, Philadelphia and Washington, D.C., and the branches that extend service to Harrisburg, PA; to Albany and points beyond including Vermont and Canada; to Hartford, CT, Springfield, MA, and Vermont; and to Portland, ME and points beyond.

The CONEG states share a goal for the Northeast Corridor that extends beyond a specific measure of high speed service. The states' goal seeks a robust rail system that, near-term and in the future, can provide better transportation options for individuals and nurture enhanced economic opportunity for communities along the entire Corridor network. That goal seeks improved, expanded passenger rail service and significantly increased ridership for both intercity and commuter rail service – on the Main Line and the critical branch lines – while also supporting essential goods movement. Achieving that goal for all users will require a quality and range of services that can continue to entice travelers away from congested highways and airports and onto an intercity and commuter rail network that provides:

- intercity service, including regional service and world-class higher speed premium service, with reduced travel times, more frequent service, and better on-time performance;
- more frequent and reliable commuter rail services with expanded coordination between commuter railroads and intercity service as well as upgraded equipment and stations; and,
- enhanced intermodal linkages for more seamless travel with coordinated informational services, compatible fare collections, integrated facilities, and coordinated operations.

The Corridor Network Has Significant Needs That Require Collaborative Actions

The northeast passenger rail network offers enormous opportunities for greater regional mobility and economic development; but it also faces significant and immediate challenges. Aging and obsolete infrastructure, limited track capacity and critical chokepoints affect the service quality and reliability for all users – intercity, commuter and freight. This stress on the system occurs even as the demand grows for improved, expanded intercity and commuter service on the NEC Main Line, and on its many connecting corridors.

Significant progress is being made. However, coordinated planning and management, combined with significant, sustained investment, must continue if the Northeast region's rail network is to achieve the capacity and connectivity required for additional – and more reliable – service in the near-term; and to lay the critical building blocks for new, expanded high performance service linking the Northeast's major population and employment centers.

The CONEG governors are pleased that the northeast states are, and will continue to be, actively engaged in partnership with each other, Amtrak, commuter and freight railroads, the U.S. Department of Transportation and local communities, to tackle these challenges and help the region achieve the full potential of an integrated rail network. With the governors' support, the 11 northeast states are engaged with the Northeast Corridor Infrastructure and Operations Advisory Commission, the unique federal-state-private sector partnership created by Congress to plan and better integrate the board visions and policy goals for the Northeast Corridor. The region's states are also participating with the Federal Railroad Administration in the NEC FUTURE, a comprehensive planning effort to define, evaluate and prioritize future investments in the NEC.

Core Principles to Guide the Future of the Northeast Corridor Network

As the Committee considers the ways in which the Northeast Corridor Network can most effectively address current and future local, state, regional and national transportation and economic goals, the CONEG governors urge the Committee to consider the core principles which have guided the northeast states as they look to the future of this vital transportation and economic asset.

The NEC is a Critical National and Regional Joint Use Asset: The Northeast Corridor is a nationally significant transportation asset that has been developed with considerable federal and state investments. It is also a joint use asset – owned, shared, and used by the states and Amtrak – for public benefit and private commercial purposes. It must continue to be managed as a public transportation corridor, with access for critical intercity, commuter and freight services where shared trackage is vital to economic development. Public oversight and control of the NEC infrastructure is essential to ensuring safe, secure and reliable passenger services.

States are Vital Partners: To ensure that the NEC Network is strategically developed to its highest and best public use, states must have a meaningful role in and responsibility for intercity and commuter rail policy-making. Portions of the NEC and some of the stations are owned by states along the corridor. The northeast states share in the ownership, financing and operations of passenger rail service on the NEC and its regional branches. They are actively engaged with their communities, Amtrak, federal government and the private sector in addressing the Network's current needs and planning for its future.

Therefore, any changes in governance, funding and management that affect the states or their commuter and intercity rail operations, including the allocation of costs and modification of services, must result from collaborative processes with the states and should provide neutral mechanisms to resolve disagreements. A significant state role in the determination of the routes, stations, services and public funding alternatives must be included in any determination of the corridor's future. Performance measures for the NEC should be determined with the states that comprise the NEC and contribute to its intercity services.

Federal policy should recognize states' long-standing role as joint funders, owners and operators of passenger rail service. It should encourage states, the federal government, and railroads to work together to improve planning and management of the NEC Network across ownership, jurisdictional and modal boundaries. Investments made by states, particularly in state-owned territory, should be recognized, acknowledged and accounted for in any funding scenario where a state contributes (or may be asked to contribute) to the cost of intercity passenger rail infrastructure. The charge given to the NEC Advisory Commission to develop a standardized formula for the allocation of costs, revenues and contributions among the NEC commuter railroads and Amtrak for use of each entity's facilities and services tacitly acknowledges this principle.

The Federal Government has a Lead Role in the State of Good Repair: Bringing the NEC infrastructure to a state of good repair is a necessary first step to improve the reliability of express and non-express service and to develop future new capacity. This will require significant resources. Since the federal government created the existing infrastructure and operations relationships on the NEC from private sector railroad assets that were not maintained to a state of good repair, the federal government has the dominant responsibility to restore the Amtrak-owned NEC infrastructure to a state of good repair that incorporates normalized maintenance and eliminates the backlog of deferred investment.

Change Must Occur in a Timely and Orderly Manner: Changes in the current intercity passenger rail system must occur in a timely, but orderly, manner that involves close consultation with the states; reflects rigorous data and analysis; recognizes the complexity of the joint-use system and its integration with the branch lines and other associated services. Any changes in funding, infrastructure, operations or institutional responsibility for the NEC Network should be undertaken in an orderly fashion that does not jeopardize current intercity, commuter and freight services.

Connectivity with Other Rail Services: The joint use of the NEC is central to its effectiveness as a public transportation corridor that serves other rail and transportation modes on the Main Line and state-supported intercity service that originates off the Main Line. Any changes on the NEC must recognize the interface with commuter railroads and with other rail services connecting to the NEC infrastructure and facilities.

Change in Financing and Risk Must Be Appropriately Considered

Given its national and regional significance, federal support for the NEC must be continued. Any modification in federal support should not be achieved solely by transferring greater costs (directly or indirectly) to the states and local governments that use and rely upon the NEC for passenger rail services. In particular, continued authorization and funding for the completion of the NEC FUTURE work, including the service development plan and the environmental analysis, are critical to assessing the importance of an enhanced NEC to the economy and development of the northeast megaregion.

Careful consideration must be given to the balance between state and local authorities and laws, and the powers and responsibilities of any entity with development and management control of the NEC's federally-owned segments.

Any major change in the funding and governance of the NEC infrastructure, operations and services entails potential legal, liability, and insurance and financial risks, if existing responsibilities are transferred among the various affected parties. Any future institutional relationships for the NEC must be developed to minimize both the risks and costs to the states.

The governors appreciate the opportunity to express their views on the Northeast Corridor.

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